DAWSON COMMUNITY COLLEGE

DAWSON COUNTY, MONTANA

For the Fiscal Years Ended June 30, 2016 and 2015

FINANCIAL STATEMENTS

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

February 2017

The Legislative Audit Committee
Of the Montana State Legislature:

Enclosed is the report on the audit of the Dawson Community College for the fiscal years ended June 30, 2016, and 2015.

The audit was conducted by Eide Bailly LLP, under a contract between the firm and our office. The contents of this report represent the views of the firm and not necessarily the Legislative Auditor.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

16C-06

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

Dawson Community College

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Years Ended June 30, 2016 and 2015

Dawson Community College

Organization

Years Ended June 30, 2016 and 2015

BOARD OF TRUSTEES

Chad Knudson	Chairperson
Bob Stanhope	Vice Chairperson
Kathleen Fritsch	Trustee
Mike Wilondek	Trustee
Becky Hicks	Trustee
Rich Rowe	Trustee
Darla Handran	Trustee

COLLEGE OFFICIALS

Scott Mickelsen	President
Kathleen Zander	Vice President of Administration
John Bole	Vice President of Student Affairs

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Board of Trustees
Dawson Community College
Glendive, Montana

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities of Dawson Community College (the College), as of and for the years ended June 30, 2016 and 2015, the financial statements of the discretely presented component unit as of and for the years ended October 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component unit – Dawson College Foundation, Inc. (the Foundation). Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards.*

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

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

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Opinions
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College as of June 30, 2016 and 2015, and the discretely presented component unit as of October 31, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions and the Other Post-Employment Benefits - Schedule of Funding Progress as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Student Financial Aid Modified Statement of Cash Receipts and Disbursements, Schedule of Expenditures of Student Financial Assistance Programs, Schedule of Full Time Equivalent and Functional Classification of Operating Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2017, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance

Eide Bailly LLP

Boise, Idaho
February 17, 2017

The following Management's Discussion and Analysis is required supplementary information under the Governmental Accounting Standards Board (GASB) reporting model. Dawson Community College's (the College) Management Discussion and Analysis (MD&A) presents an overview of its financial condition and results of operations and cash flows for the fiscal years ended June 30, 2016 and 2015. The MD&A's purpose is to aid readers in understanding the accompanying financial statements through analysis of the College's financial activities based on currently known facts and conditions. This MD&A should be read in conjunction with the accompanying financial statements and footnote disclosures.

Financial Highlights

In the fiscal year 2016, operating revenues increased and operating expenses decreased slightly resulting in net operating loss decrease to $3,834,301 from the previous fiscal year. This netted against a decrease in non-operating revenues from state appropriations, property taxes, and oil and gas revenues resulted in an overall increase in net position of $345,673. The ability to increase net position during a restructuring that eliminated several faculty and staff positions and a downward trend in enrollment reflects the College's ability to adjust spending appropriately and react to the changing higher education landscape while responding to the needs of students and community.

In the fiscal year 2015, operating revenues and expenses decreased slightly with operating loss increasing to $4,318,658 from the previous fiscal year. This, along with an increase in non-operating revenues from state appropriations and property taxes, resulted in an overall increase in net position of $534,866. These results were achieved during a downward trend in enrollment and reflect the College's ability to adjust spending appropriately and react to the changing higher education landscape while responding to the needs of students and the community.

Changes in Accounting Principles

In fiscal year 2015, the College adopted the provisions of GASB Statement No. 68: *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71: *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68* (GASB 68 and 71). The tables in this discussion presented for the year ended June 30, 2014, have not been restated for the implementation of GASB 68 and 71.

How the Financial Statements Relate to Each Other

The financial statements included are the:

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

The basic financial statements referred to above are presented using the accrual basis of accounting. The accrual basis of accounting simply means revenues are reported when earned and expenses are reported when incurred, regardless of actual receipt or payment of cash. For example, revenue would be recognized when a student registers and when the class is held, not when the student ultimately pays for the 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 intended and should be viewed in their entirely. However, each of the financial statements is unique and presents the financial information in accordance with the purpose of the individual statement. The most basic relationships between the statements are described below. The Statement of Net Position presents a snap shot of the financial position of the College as of its fiscal year end, June 30, 2016 and 2015. The Statement of Revenues, Expenses and Changes in Net Position presents the results of activities for the College throughout the fiscal year.

Statement of Net Position - The Statement of Net Position presents the College's assets, deferred outflow of resources, liabilities, deferred inflows of resources and net position as of the fiscal year end. The purpose of this statement is to present to the financial statement readers a snapshot of the College's financial position at June 30. The data presented in the Statement of Net Position aids in determining the assets available to continue the College's operations. It also allows reader to determine how much the College owes to vendors and creditors. Finally, the Statement of Net Position provides a picture of net position and its availability for expenditures by the College. Assets and liabilities are presented in a classified format. This format differentiates between current and non-current assets and liabilities.

Current assets and liabilities and deferred outflows/inflows are those expected to be realized or expended within the next twelve months. The net position is simply the difference between total assets and deferred outflows and total liabilities and deferred inflows. Net position is presented in three categories applicable to the College:

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

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

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

Condensed Statements of Net Position

	June 30, 2016	June 30, 2015	June 30, 2014 **
Total Current Assets	$ 3,657,434	$ 3,334,656	$ 2,836,266
Total Capital and Other Assets	11,649,439	11,875,411	12,199,851
Total assets	15,306,873	15,210,067	15,036,117
Deferred Outflow of Resources	279,892	317,068	--
Total Current Liabilities	858,511	789,845	803,298
Total Non-Current Liabilities	6,516,250	6,585,592	4,379,369
Total liabilities	7,374,761	7,375,437	5,182,667
Deferred Inflow of Resources	180,493	465,860	--
Net Investment in Capital Assets	6,354,763	6,285,876	6,333,594
Restricted - Expendable	2,739,194	3,751,265	2,311,564
Unrestricted	(1,062,446)	(2,351,303)	1,208,292
Total net position	$ 8,031,511	$ 7,685,838	$ 9,853,450

** The 2014 column was not restated to reflect the implementation of GASB 68/71 as all the relevant information was not provided to the College.

Total net position increased by $345,673 from FY2015 to FY2016. Total net position increased from operations by $534,866 from FY2014 to FY2015, and after the adjustment, decreased by $2,167,612 due to implementation of GASB 68.

Current assets include the College's cash, taxes, grants receivables, student loans, accounts receivables, inventories, prepaid expenses and other assets expected to benefit the College within one year. The net increase in current assets from FY2015 to FY2016 was due to an increase in cash and cash equivalents, and taxes receivable, netted against a decrease in grants receivables and prepaid expenses. The net increase in current assets from FY2014 to FY2015 was due to an increase in cash and cash equivalents, inventory, grants receivables and prepaid expenses netted against a decrease in net accounts receivables and inventories.

Non-current assets include restricted cash, investments and net capital assets. The net decrease in non-current assets from FY2015 to FY2016 is due to the annual depreciation expense offset by an increase in restricted cash and investments. The net decrease in non-current assets from FY2014 to FY2015 is due to the annual depreciation expense and a decrease in restricted cash offset by an increase in restricted investments.

Deferred outflows of resources include pension obligations.

Current liabilities include payroll and related liabilities, amounts payable to vendors for goods and services received, student deposit balances, unbilled revenue and debt principal payments due within one year. Total current liabilities increased by $68,666 from FY2015 to FY2016 due to increases in amounts due for online summer classes. Total current liabilities decreased from FY2014 to FY2015 by $13,453 due to decreases in accrued payroll expense for contractual faculty salaries.

Non-current liabilities include debt principal due in greater than one year, other post-retirement benefit obligations (OPEB) for employees and net pension liability. Non-current liabilities decreased from FY2015 to FY2016 by $69,342 as a result of reductions in debt netted against increases in OPEB obligations and net pension liability. The increase of total non-current liabilities from FY2014 to FY2015 of $2,206,223, is primarily the result of implementation of GASB 68, which increased net pension liability by $2,465,319.

Deferred inflows of resources include employer pension assumptions.

Net investment in capital assets represents historical cost of capital assets such as buildings and land held by the College less accumulated depreciation and net of debt balances related to the capital assets. The increase from FY2015 to FY2016 and the decrease from FY2014 to FY2015 is the difference between the reduction in long term debt and the annual depreciation of capital assets offset by capital assets purchased.

Restricted-expendable net position represents funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor, governmental entity, etc. These funds are primarily restricted for grants, student loans, scholarships and student activities.

Unrestricted net position is funds that the College may use for whatever purpose it determines is appropriate. This category is made up of operating activities, and numerous designated activities which include funds designated as follows.

Student Activity Fees – Any change in the Student Activity Fee must be approved by a majority vote of the voting students, the Board of Trustees, and the Board of Regents. The Student Activity Fee is allocated and deposited into five separate accounts:

- 46.00% to Associated Student Body
- 25.75% to Athletics
- 12.75% to Publications
- 12.75% to Institutional
- 2.75% to Theatre

The Student Government administers the Associated Student Body account and the Board of Trustees or their designee administers the remaining accounts.

Library Fees – Any change in the Library Fee must be approved by the Board of Trustees and the Board of Regents. Library Fees are intended to augment, not replace, basic operating expenses of the library and may be used for consumable supplies, periodicals and holdings, and equipment and improvements. The annual amount budgeted from Library Fees is based on anticipated revenues generated from projected annual enrollment. Library Fees are not intended for continuing personnel costs.

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

Computer Fees – Any change in the Computer Fee must be approved by the Board of Trustees and the Board of Regents. Computer Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the College's IT/Banner system. This system is primarily used for student records, human resources, and student accounts receivable and financial accounting record keeping.

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

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

Weight Room Improvement Fee – Weight Room Improvement Fees are collected for the purchase or lease of weight room equipment, maintenance, improvements or related items which will benefit or improve the weight room. Any change in the Weight Room Improvement Fee requires approval from the Associated Student Body, Board of Trustees and Board of Regents.

Statement of Revenue, Expenses, and Changes in Net Position - The Statement of Revenue, Expenses, and Changes in Net Position reflects the results of the operations for each fiscal year, distinguishing between operating and non-operating revenues and expenses as defined by GASB. GASB has defined appropriations (state and local) and Federal Pell grant funding as non-operating revenues, thus the College shows an operating loss of $3,834,301 and $4,318,658 from FY2016 and FY2015, respectively. Once the appropriations and Pell grant dollars are considered, the change in net position results in an increase of $345,673 and $534,866 for FY2016 and FY2015, respectively. The inclusion of state and local appropriations and Pell grant funding is a more useful measure of the College's regular activities.

Condensed Statements of Revenue, Expenses and Changes in Net Position

	June 30, 2016	June 30, 2015	June 30, 2014 **
Operating Revenues	$ 2,612,360	$ 2,292,242	$ 2,411,800
Operating Expenses	(6,446,661)	(6,610,900)	(6,643,360)
Operating Loss	(3,834,301)	(4,318,658)	(4,231,560)
Net Non-Operating Revenues	4,179,974	4,853,524	4,846,358
Changes in Net Position	345,673	534,866	614,798
Net Position, Beginning of Year	7,685,838	7,150,972	9,238,652
Prior Period Adjustment**	--	--	(2,702,478)
Net Position, End of Year	$ 8,031,511	$ 7,685,838	$ 7,150,972

**The 2014 column was not restated to reflect the implementation of GASB 68/71 as all the relevant information was not provided to the College. Net position was restated to reflect the implementation of GASB 68/71.

Operating Revenues includes federal and state grants and contracts, tuition, fees and auxiliary activities. Operating Revenues for FY2016 are $2,612,360 compared to FY2015 are $2,292,242 and $2,411,800 for FY2014. The increase from FY2015 to FY2016 is primarily due to the receipt of insurance proceeds from storm damage. The related repairs have not yet been completed. The decrease from FY2014 to FY2015 is primarily comprised of decreases in state grants and tuition revenue netted against an increase in revenue in auxiliary activities such as the bookstore and dormitory.

Operating Expenses for FY2016 were $6,446,661 versus $6,610,900 for FY2015, a decrease of $164,239. Operating Expenses decreased by $32,460 from $6,643,630 in FY2014 to $6,610,900 in FY2015. These decreases in operating expenses were the result of increases in contracted services netted against decreased salaries, supplies, repairs and maintenance and bad debt expense. Lower enrollment necessitated cost saving measures, which resulted in less expended for salaries, supplies, and repairs and maintenance. The increase in contracted services was due to fees associated with accreditation and legal costs.

Non-Operating Revenues (Expenses) are comprised of interest income and expense, unrealized gains on investments, state and local appropriations and Federal Pell grant funding. Non-Operating Revenues for FY2016 are $4,179,974 versus $4,853,524 for FY2015. State appropriations for FY2016 were $246,575 less than FY2015, and local appropriations were $46,531 less than FY2015. In FY2016, oil and gas revenue was $174,249 as opposed to $400,293 received for oil and gas in FY2015. In FY2015 Non-Operating Revenues increased by $7,166 from FY2014. State appropriations were $36,548 more in FY2015 than FY2014, and local appropriations were $141,341 higher. Oil and gas revenue in FY2014 was $263,889.

Capital Assets - The College's investment in Capital Assets as of June 30, 2016 and June 30, 2015, was $9,327,378 and $9,587,246, respectively, net of accumulated depreciation. Investment in Capital Assets normally includes land, buildings, improvements, machinery and equipment, library holdings, and software. The decrease was due to annual depreciation of $405,345 netted against capital purchases of $145,477 for FY2016. Annual depreciation for FY2015 was $390,943 netted against capital purchases of $61,285. Additional information can be found in Footnote 5.

Debt Administration - The College's long-term debt obligations as of June 30, 2016, and June 30, 2015, were $2,995,143 and $3,301,370, respectively. The College had $3,583,310 long term debt obligations at fiscal year end June 30, 2014. Additional information can be found in Footnote 7.

Pending Economic and Financial Issues

Since 1940, Dawson Community College has demonstrated remarkable resiliency and served as a center of educational opportunity open to all seekers. The College is proud to provide an educational marketplace where student aspirations and community needs influence course offerings and college programs. This past year Dawson Community College marks 75 years in which the taxpayers' investment in the College and the good work of faculty, staff and administrators has helped countless people learn and advance toward personal goals while enriching surrounding communities.

Institutional Effectiveness – The mission of Dawson Community College is to provide affordable and open access to quality teaching and learning. The College launched an institutional effectiveness system in August 2014 to foster a shared governance environment and to create an organizational framework of standing committees charged to address nearly every aspect of the College. The standing committees assess mission fulfillment and core theme objectives; engage in long-term strategic and annual planning; respond to changes in the college's political, social and educational environment; prepare the annual budget proposal; and engage in the continuous improvement of systems and processes. The work of these committees provides a process for decision making that deeply considers how to invest the College's human and financial resources.

Enrollment/Regional Economy – In response to declining FTE numbers, the College administration reorganized their recruiting strategy to include a new enrollment management department in FY2014. There is always a lag in regard to changes in recruiting strategies, however, preliminary data from this new strategy is encouraging as participation in early registration events has increased over last year's numbers. A concentrated effort to increase traditional students has spurred interest in dual enrollment in our region and the College has set a goal to establish duel enrollment agreements with each high school in our immediate seven country service area within the next year.

A great deal of time was spent in FY2016 developing workforce training and technical programs in collaboration with business and industry partners to meet regional human capital demand. An example, of this new focus (and due to funding from the Federal TAACCCT grant), the College in FY2016 researched the new Corrosion Program (the third of its kind) in the fall of 2016. The new program has already sparked national interest and is expected to garner more as it matures. In addition, the College added certificates in Public Service and Welding, which allows those seeking specific work skills to obtain industry recognized credentials to add to their resume. The College is currently searching other departments where these stackable credentials could benefit area employers and employees.

Workforce Training – As part of the current strategic plan, the College Workforce Development and Continuing Education department has focused on expanding non-credit offerings. New classes requested by area employers and community members and offered during FY2016 included QuickBooks, Basic Computer Skills, Stained Glass Creations and customized training for Mid-Rivers Co-operating titled Basic Electricity and Electronics. In all, these classes served 62 students. Some of these classes were held in both Glendive and Sidney. The College is already working on adding to these classes to serve other area employers in areas such as advanced computer skills and employment law. Additional customized training for area educators and local law enforcement are also being planned. The College will continue to work in both Sidney and Glendive, and pursue the possibility of offering classes in other surrounding communities.

Oil and Gas Activity – Eastern Montana is again witnessing the effects of a boom and bust industry that is a unique factor in our economic history. FY2015 began to show the flip side of the recent years' successes in the oil and gas activity in the region. Decreases in oil production result in a corresponding decrease in revenue resulting from these activities. FY2016 continued this downward trend of oil and gas revenues. The College adjusted budgeting to account for potential decreases in oil and gas revenue prior to FY2014 and have so far weathered the roller coaster ride of this bust and boom cycle with little break in service to our students.

Improved Systems and Processes – While the use of the Ellucian Integrated Data Base System (Banner) has proved challenging, it is important to note the College continues to improve processes and procedures in their Business Department. Due to a combined effort of documenting and improving procedures in the business office, additional employee training, adding extra personnel and investing additional capital in Banner; the College continues to improve our ability to provide timely and accurate financial information for decision making purposes.

Restructuring of Staff and Faculty – Due to the decade long trend of declining enrollment and reduction in state allocations, the College restructured in FY2016 by implementing a reduction in force among both faculty and staff. Using data regarding class size, enrollment numbers, and transferability of classes, the College determined we could successfully serve the current number of students by decreasing the number of full time faculty from 16 to a range of 9-12. The restructuring was a lengthy and difficult process and projected potential savings for FY2016 were lost when netted against increase in legal fees. However, the restructuring resulted in the number of full time faculty numbers more in line with current enrollment. The strategy focused on cutting expenses, not programs and the College employed a dual strategy of cutting expenses and growing enrollments through strategic markets to reach new audiences.

Administration – To serve the emerging needs of the region and to modernize College organizational structures, functions, and programs, the College entered a period of renewal and reorganization in FY2014. The College continued these turn-around efforts in FY2015. One of the byproducts of this revitalization was the adoption of the Dawson Community College 2015-2018 Strategic Plan in February 2015. This strategic plan, which incorporates input from internal and external college stakeholders, provides a clear set of objectives to strengthen and grow the college in the next three years. Financial resources are being invested in key aspects of this strategic plan such as enrollment management, professional development for employees and academic quality. The plan also addresses areas of improvements such as degree completion and successful transfer to four-year institutions. As the renewal process continues, the administration of Dawson Community College is excited about the challenges and opportunities presented to the College. We are committed to meeting the varied needs of students in our area, improving our financial situation and to continue to provide affordable and open access to quality teaching and learning.

The College was served by Interim President Vince J. Nix during FY2016. Effective July 2016, the College and community welcomed Dr. Scott Mickelsen as the new President of Dawson Community College.

Request for Information – The financial report is designed to provide a general overview of the College's financials. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Vice President of Administration, Dawson Community College, 300 College Drive, Glendive, Montana 59330.

Dawson Community College

Statements of Net Position

June 30, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 2,850,122	$ 2,551,448
Taxes receivables	402,191	282,500
Student loan receivables	73,565	74,247
Accounts receivable, net of allowance of $19,270 and $6,850, June 30, 2016 and 2015, respectively	66,473	34,644
Grants receivable	90,253	189,902
Prepaid expenses	65,478	95,011
Inventory	109,352	106,904
Total current assets	3,657,434	3,334,656
Noncurrent Assets		
Restricted cash	1,186,101	1,160,903
Restricted investments	1,135,960	1,127,262
Land	137,518	137,518
Capital assets, net of accumulated depreciation	9,189,860	9,449,728
Total noncurrent assets	11,649,439	11,875,411
Total assets	15,306,873	15,210,067
Deferred Outflow of Resources		
Pension obligation	279,892	317,068

Dawson Community College

Statements of Net Position

June 30, 2016 and 2015

	2016	2015
Current Liabilities		
Accounts payable	$ 106,380	$ 29,765
Accrued payroll expenses	255,278	299,945
Room deposits	8,845	10,500
Advanced tuition and fees	97,480	23,270
Interest payable	19,479	21,771
Current portion of long-term debt	301,997	313,616
Current portion of compensated absences	69,052	90,978
Total current liabilities	858,511	789,845
Long-Term Liabilities		
Long-term debt, less current portion	2,693,146	2,987,754
Long-term compensated absences, less current portion	138,105	181,957
Net pension liability	2,662,460	2,465,319
OPEB payable	1,022,539	950,562
Total long-term liabilities	6,516,250	6,585,592
Total liabilities	7,374,761	7,375,437
Deferred Inflow of Resources		
Employer pension assumptions	180,493	465,860
Net Position		
Net investment in capital assets	6,354,763	6,285,876
Restricted Expendable		
Student Loans	79,378	79,051
Scholarships, research and other	2,472,280	3,524,687
Student activities fund	187,536	147,527
Unrestricted	(1,062,446)	(2,351,303)
Total net position	$ 8,031,511	$ 7,685,838

Dawson College Foundation

Component Unit

Statements of Financial Position

October 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	$ 294,797	$ 246,900
Investments in marketable equity securities	1,183,904	1,171,048
Commitments receivable	4,000	--
Accrued interest receivable	1,688	2,046
Total assets	$ 1,484,389	$ 1,419,994
Net Assets		
Unrestricted	$ 321,579	$ 419,403
Temporarily restricted	303,096	221,830
Permanently restricted	859,714	778,761
Total net assets	$ 1,484,389	$ 1,419,994

Dawson Community College

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Federal grants and contracts	$ 563,297	$ 376,197
State and private grants and contract	42,362	104,389
Tuition (net of waivers)	607,534	543,642
Course and mandatory fees	330,094	262,104
Auxiliary activities		
Bookstore and coffee shop	96,281	93,336
Dormitory	506,696	558,456
Other revenue	466,096	354,118
Total operating revenues	2,612,360	2,292,242
Operating Expenses		
Salaries	2,456,851	2,635,633
Benefits	1,030,619	939,734
Travel	295,181	256,239
Supplies	294,223	423,989
Contracted Services	958,824	819,941
Repairs and maintenance	89,094	88,637
Utilities	154,923	172,631
Communication	111,217	76,867
Scholarships and grants	511,552	569,955
Other operating expenses	138,832	236,331
Depreciation	405,345	390,943
Total operating expenses	6,446,661	6,610,900
Operating Loss	(3,834,301)	(4,318,658)
Non-Operating Revenues (Expenses)		
Interest income	35,199	30,490
Interest expense	(141,755)	(151,296)
Transfers In	--	3,587
Investment income	8,849	72,570
Federal Pell grant funding	318,034	419,376
State appropriation	1,927,140	2,173,715
State oil and gas production tax	174,249	400,293
Local appropriation	1,858,258	1,904,789
Total non-operating revenues	4,179,974	4,853,524
Change in Net Position	345,673	534,866
Net Position, Beginning of Year	7,685,838	7,150,972
Net Position, End of Year	$ 8,031,511	$ 7,685,838

Dawson College Foundation

Component Unit

Statement of Activities

Year Ended October 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Contributions	$ 6,807	$ 48,082	$ 41,975	$ 96,864
Investment income	13,289	16,244	--	29,533
Net realized & unrealized investment gains (losses)	(981)	(1,200)	--	(2,181)
Fundraising	2,725	--	--	2,725
Total revenues and support	21,840	63,126	41,975	126,941
Expenses				
Scholarships	--	12,294	--	12,294
Professional fees	3,700	--	--	3,700
Dues and subscriptions	1,211	--	--	1,211
Office expenses	4,057	--	--	4,057
Teacher development	--	6,753	--	6,753
Program services	1,424	--	--	1,424
Fundraising expenses	425	--	--	425
Insurance	1,177	--	--	1,177
Advertising	3,802	--	--	3,802
Miscellaneous	824	--	--	824
Charitable distributions	191	26,688	--	26,879
Total expenses	16,811	45,735	--	64,546
Change in Net Assets	5,029	17,391	41,975	64,395
Net Assets, Beginning of Year	419,403	221,830	778,761	1,419,994
Reclassified Based on Donor Restrictions	(102,853)	63,875	38,978	--
Net Assets, End of Year	$ 321,579	$ 303,096	$ 859,714	$ 1,484,389

Dawson College Foundation

Component Unit

Statement of Activities

Year Ended October 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Contributions	$ 23,407	$ 29,088	$ 55,687	$ 108,182
Investment income	13,393	16,368	--	29,761
Net realized & unrealized investment gains (losses)	11,782	14,399	--	26,181
Fundraising	37,614	--	--	37,614
Total revenues and support	86,196	59,855	55,687	201,738
Expenses				
Scholarships	--	29,826	--	29,826
Professional fees	2,300	--	--	2,300
Dues and subscriptions	2,440	--	--	2,440
Office expenses	3,944	--	--	3,944
Teacher development	--	7,859	--	7,859
Fundraising expenses	16,535	--	--	16,535
Miscellaneous	164	750	--	914
Charitable distributions	6,171	54,008	--	60,179
Total expenses	31,554	92,443	--	123,997
Change in Net Assets	54,642	(32,588)	55,687	77,741
Net Assets, Beginning of Year	359,547	666,880	315,826	1,342,253
Reclassified Based on Donor Restrictions	5,214	(412,462)	407,248	--
Net Assets, End of Year	$ 419,403	$ 221,830	$ 778,761	$ 1,419,994

Dawson Community College

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from tuition and course fees	$ 980,332	$ 817,182
Receipts from grants and contracts	655,001	407,762
Collection on student loans receivables	6,368	13,856
Disbursement of loans to students	(5,358)	(8,399)
Receipts from the bookstore	96,281	93,336
Receipts from the dormitory	506,696	558,456
Cash paid to employees	(3,597,915)	(3,657,422)
Cash paid to suppliers	(1,785,329)	(1,974,702)
Cash paid for scholarships and student support	(461,245)	(569,955)
Payments for utilities	(154,923)	(172,631)
Other revenue	466,096	354,118
Net Cash used for Operating Activities	(3,293,996)	(4,138,399)
Investing Activities		
Interest received	35,350	30,490
Investment earnings reinvested	(8,849)	(74,241)
Earnings received on investments	8,849	72,571
Transfers in	--	993,874
Net Cash from Investing Activities	35,350	1,022,694
Non-Capital Financing Activities		
State appropriations	1,927,140	2,173,715
State oil and gas production tax	87,299	270,642
Federal Pell grant funding	318,034	419,376
Local appropriations	1,858,258	1,904,789
Net Cash from Non-Capital Financing Activities	4,190,731	4,768,522
Capital and Related Financing Activities		
Purchase of property and equipment	(130,377)	(46,185)
Principal payments on long-term debt	(320,031)	(297,040)
Interest payments on long-term debt	(157,805)	(157,805)
Net Cash used for Capital and Related Financing Activities	(602,213)	(501,030)
Net Change in Cash and Cash Equivalents	323,872	1,151,787
Cash and Cash Equivalents, Beginning of Year	3,712,351	2,560,564
Cash and Cash Equivalents, End of Year	$ 4,036,223	$ 3,712,351

Dawson Community College

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash used for operating activities		
Operating loss	$ (3,834,301)	$ (4,318,658)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	405,345	390,943
Change in OPEB obligation	71,977	64,820
Contributions from the State for pensions	(71,329)	(86,077)
Change in operating assets and liabilities		
Student loans receivable	682	(6,521)
Accounts receivable, net	(31,829)	(11,834)
Grants receivable	99,649	(72,824)
Prepaid expenses	29,533	(35,413)
Inventory	(2,448)	(13,294)
Accounts payable	76,615	12,394
Unearned tuition and fees	74,210	23,270
Accrued payroll expenses	(44,667)	(42,347)
Room deposits	(1,655)	(3,150)
Compensated absences	(65,778)	(39,708)
Net Cash used for Operating Activities	$ (3,293,996)	$ (4,138,399)
Supplemental Disclosures of Noncash Activity		
Fixed assets acquired from capital lease	$ (15,100)	$ 15,100
Reconciliation of Cash, Restricted Cash and Cash Equivalents		
Cash and cash equivalents	$ 2,850,122	$ 2,551,448
Restricted cash	195,663	1,160,903
Total cash and cash equivalents and restricted cash	$ 4,036,223	$ 3,712,351

Dawson College Foundation

Component Unit

Statements of Cash Flows

Years Ended October 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 64,395	$ 77,741
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Increase (decrease) in current liabilities	--	(152)
(Increase) decrease in interest receivable	358	(1,706)
(Increase) decrease in commitments receivable	(4,000)	--
Net Cash Provided by Operating Activities and Nonoperating Revenues	60,753	75,883
Cash Flows from Investing Activities		
(Increase) decrease in investments	(12,856)	(64,932)
Net Cash Used by Investing Activities	(12,856)	(64,932)
Net Increase in Cash and Cash Equivalents	47,897	10,951
Cash and Cash Equivalents – Beginning of Year	246,900	235,949
Cash and Cash Equivalents – End of Year	$ 294,797	$ 246,900

Note 1 – Nature of Business and Significant Accounting Polices

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.

The College's financial statements are prepared in accordance with the pronouncements of Governmental Accounting Standards Board (GASB) and in accordance with accounting principles generally accepted in the United States of America (GAAP).

Nature of Business – Reporting Entity

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

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

The College, for financial purposes, includes all funds, 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.

As defined by GAAP established under GASB, the financial reporting entity consists of the primary government, as well as its component unit Dawson College Foundation, Inc. (the Foundation). The Foundation has been organized to coordinate fund-raising activities for the College. These include the long-term care of and building of additional facilities at the College location in Glendive, Montana. The Foundation uses these funds to assist in purchasing needed educational equipment and supplies.

The Foundation's financial statements for the fiscal year ended October 31, 2015 and 2014, are discretely presented because the College does not have financial accountability for the Foundation.

The Foundation's financial statements are prepared in accordance with the pronouncements of the Financial Accounting Standards Board (FASB). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the College. No modifications have been made to the Foundation's financial information included in the College's report. The Foundation's separately issued financial statements may be obtained by contacting their office at 300 College Drive, Glendive, Montana.

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 in accordance with GAAP. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Non-exchange transactions are those in which the College receives value without directly giving equal value in return. Those include property taxes, federal, state and local grants, state appropriations, and other contributions. On an accrual basis, revenue from taxes is recognized in the period for which the levy is intended to finance. Revenues from grants, state appropriations and other contributions are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the College must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the College on a reimbursement basis.

Cash and Cash Equivalents

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

Taxes Receivable

The College records taxes receivable and revenue for property taxes that have been assessed, but have not yet been collected. All property taxes are collected by the Treasurer of Dawson County, Montana. Property taxes attach as an enforceable lien on property as of January 1st and are levied on the 2nd week in September. 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, 2016 and 2015, are as follows:

	2016 Number of Mills	2015 Number of Mills
General Levy	44.85	52.07
Debt Service Levy	12.71	10.28
Adult Education Levy	2.22	1.88
Retirement Fund Levy	13.66	27.19
Total	73.44	91.42

Student Loan Receivable

Student Loan receivables are recognized in the year in which tuition is recognized. Amounts are advanced to students under various federal student financial assistance programs.

Accounts Receivable

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

Grants Receivable

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

Prepaid Expenses

Prepaid items include payments made in the current fiscal year for expenditures attributable to future periods.

Advanced Tuition and Fees

Advanced tuition and fees includes amounts received from grants and student tuition and fees prior to the end of the fiscal year relating to summer term. These revenues are earned in the subsequent year.

Inventories

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

Non-Current Assets

Cash balances and investments that are externally restricted as to their use are classified as a noncurrent asset in the accompanying Statement of Net Position.

Investment Valuation

The College categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The College does not have any investments that are measured using Level 3 inputs.

Capital Assets and Depreciation

Capital assets include buildings, improvements, and equipment. Capital assets are defined as assets with an individual initial cost of more than $5,000 and a useful life in excess of one year for equipment and library resources, and $25,000 for buildings and improvements.

Purchased capital assets are valued at cost where historical records are available and at estimated historical costs where no historical records exist. Donated capital assets are valued at their estimated acquisition 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.

Capital assets are depreciated under the straight-line method over the following estimated useful lives:

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

Compensated Absences

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

Federal Awards and Grants

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

Classification of Net Position

The College classifies net position as follows:

- *Net investment in capital assets* – capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted, expendable* – use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire with the passage of time.
- *Restricted, nonexpendable* – subject to externally imposed stipulations that the College maintain those assets permanently.
- *Unrestricted* – not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by actions of management, the Board of Trustees, or the Board of Regents, or may otherwise be restricted by contractual agreements with outside parties. Substantially all unrestricted net position is designated for general operating purposes and capital asset acquisition.

Revenues

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

- *Operating Revenues* – include activities that have the characteristics of exchange transactions, including student tuition and fees, net of scholarship allowances and discounts; sales and services of auxiliary services; and most grants and contracts.
- *Non-operating Revenues* – non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, Pell grant funding, property taxes, investment income and interest expense.

Use of Restricted Revenues

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

Income Taxes

As a public institution of higher education, the income of the College is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the College is subject to federal income tax on any unrelated business taxable income. Defined by the Internal Revenue Code, unrelated business income is from a trade or business, regularly carried on, that is not substantially related to the performance by the organization of its exempt purpose of function. The College does not have unrelated business income tax to report during the fiscal year ended June 30, 2016 or 2015.

Deferred Outflows and Inflows of Resources

The statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The College has one item that qualifies for reporting in this category, pension obligations.

The statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The College has one item that qualifies for reporting in this category reported on the statement of net position, employer pension assumption.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the report period. Actual reports could differ from those estimates.

Pensions

The Teachers' Retirement System (TRS) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the TRS and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. TRS adheres to all applicable GASB statements.

TRS's stand-alone financial statements, actuarial valuations and experience studies can be found online at http://trs.mt.gov/TrsInfo/NewsAnnualReports.

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable GASB statements.

Scholarships Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are generated by the difference between the stated charge of goods and services provided by the College, and the amount that is paid by the students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance of $318,991 and $294,642 as of June 30, 2016 and 2015, respectively.

New Accounting Standards

As of July 1, 2014, the College adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense.

As of July 1, 2015 the College has adopted GASB Statement No. 72, *Fair Value Measurement and Application*; investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period.

Note 2 – Cash and Cash Equivalents

At June 30, 2016 and 2015, cash and cash equivalents consisted of the following:

	2016	2015
Cash on hand	$ 6,744	$ 5,289
Deposits with financial institutions	70,086	67,944
Time certificate of deposit with financial institution	50,548	50,347
Invested in Dawson County Investment Pool	2,918,407	2,598,484
Money market funds	990,438	990,287
Total cash and cash equivalents	$ 4,036,223	$ 3,712,351

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

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

The 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, 2016 and 2015.

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 U.S. government security money market fund which holds eligible securities in its investment program, or in a unified investment program with the state, county treasurer, or any other political subdivision as long as investments are eligible investments.

Custodial Credit Risk – Deposits

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

$250,000 FDIC coverage for demand deposits and $250,000 FDIC coverage for time and savings deposits in each bank in the state.

As of June 30, 2016 and 2015, respectively, none of the College's bank balances of $3,237,559 and $2,722,025 were exposed to custodial credit risk.

Note 3 – Restricted Cash

The College has restricted cash as follows as of June 30, 2016 and 2015:

	2016	2015
Restricted for dorm furniture replacement	$ 30,425	$ 29,697
Dorm deposits	8,845	10,500
Restricted for grants or scholarships	94,674	75,269
Restricted for student loan program	11,171	4,803
USDA loan reserve	50,548	50,347
Money market funds	990,438	990,287
Total restricted cash	$ 1,186,101	$ 1,160,903

Note 4 – Restricted Investments

The College's restricted investments are as follows for the year ended June 30, 2016 and 2015:

	2016	2015
GNMA	$ --	$ 79
Corporate bond mutual funds	35	90,280
Stock mutual funds	1,135,925	1,036,903
Total restricted investments	$ 1,135,960	$ 1,127,262

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Mutual funds categorized as Level 1 are valued based on prices quoted in active markets for those securities. Corporate bonds categorized as Level 2 are valued using a matrix pricing technique that values securities based on their relationship to benchmark quoted prices. Mortgage-backed securities categorized as Level 2 are valued using discounted cash flow techniques.

Investments' fair value measurements are as follows at June 30, 2016:

Investments	Fair Value	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mutual Funds:				
Growth & Income	$1,045,903	$1,045,903	$ --	$ --
Aggressive Growth	90,022	90,022	--	--
Corporate bonds	35	--	35	--
Total debt securities	$1,135,960	$1,135,925	$ 35	$ --

Investments' fair value measurements are as follows at June 30, 2015:

Investments	Fair Value	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mutual Funds:				
Growth & Income	$ 338,500	$ 338,500	$ --	$ --
Large Value	349,235	349,235	--	--
Large Blend	349,168	349,168	--	--
Corporate bonds	90,280	--	90,280	$ --
Mortgage-backed securities:	79		79	
Total debt securities	$1,127,262	$1,036,903	$ 90,359	$ --

Interest Rate Risk

The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The College's investments in the State Short-Term Investment Pool (through the Dawson County Investment Pool) and various open-ended mutual funds can be liquidated at any time and are therefore not subject to interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The College has no investment policy that would limit its investment choices. The College's investment in a corporate bond mutual fund contains approximately 35% investment grade securities and 65% lower rated securities (junk bonds).

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of a failure of a counterparty (the party that pledges collateral or repurchase agreement securities to the College or that sells investments to or buys them for the College), the College will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The College currently does not have an investment policy for custodial credit risk.

Note 5 – Capital Assets

Capital assets activity for the year ended June 30, 2016 is summarized as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated				
Land	$ 137,518	$ --	$ --	$ 137,518
Total capital assets not being depreciated	137,518	--	--	137,518
Capital assets being depreciated				
Buildings	12,648,215	--	--	12,648,215
Equipment	1,424,017	102,789	--	1,526,806
Improvements	1,264,413	42,688	--	1,307,101
Library inventory	396,396	--	--	396,396
Total capital assets being depreciated	15,733,041	145,477	--	15,878,518
Less accumulated depreciation				
Buildings	(4,271,376)	(249,251)	--	(4,520,627)
Equipment	(1,087,379)	(95,648)	--	(1,183,027)
Improvements	(562,737)	(54,433)		(617,170)
Library inventory	(361,821)	(6,013)	--	(367,834)
Total accumulated depreciation	(6,283,313)	(405,345)	--	(6,688,658)
Net capital assets being depreciated	9,449,728	(259,868)	--	9,189,860
Net Capital Assets	$ 9,587,246	$ (259,868)	$ --	$ 9,327,378

Capital assets activity for the year ended June 30, 2015 is summarized as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets not being depreciated				
Land	$ 137,518	$ --	$ --	$ 137,518
Total capital assets not being depreciated	137,518	--	--	137,518
Capital assets being depreciated				
Buildings	12,648,215	--	--	12,648,215
Equipment	1,362,732	61,285	--	1,424,017
Improvements	1,264,413	--	--	1,264,413
Library inventory	396,396	--	--	396,396
Total capital assets being depreciated	15,671,756	61,285	--	15,733,041
Less accumulated depreciation				
Buildings	(4,021,125)	(250,251)	--	(4,271,376)
Equipment	(1,005,567)	(81,812)	--	(1,087,379)
Improvements	(509,936)	(52,801)		(562,737)
Library inventory	(355,742)	(6,079)	--	(361,821)
Total accumulated depreciation	(5,892,370)	(390,943)	--	(6,283,313)
Net capital assets being depreciated	9,779,386	(329,658)	--	9,449,728
Net Capital Assets	$ 9,916,904	$ (329,658)	$ --	$ 9,587,246

Note 6 – Compensated Absences

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, at June 30, 2016 and 2015, was as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Amounts Due Within One Year
Vacation and sick	$ 272,935	$ 111,285	$ (177,063)	$ 207,157	$ 69,052

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015	Amounts Due Within One Year
Vacation and sick	$ 312,643	$ 95,635	$ (135,343)	$ 272,935	$ 90,978

Note 7 – Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2016, were as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Amounts Due Within One Year
Loan					
Stockman Bank	$ 422,448	$ --	$ (33,340)	$ 389,108	$ 33,930
USDA Rural Development	566,800	--	(11,086)	555,714	13,014
General Obligation Bond	2,205,000	--	(205,000)	2,000,000	215,000
Key Equipment Lease	14,726	--	(4,488)	10,238	4,488
All-Lines Leasing	--	13,804	(4,768)	9,036	4,518
Intercap Loan	92,396	--	(61,349)	31,047	31,047
	$ 3,301,370	$ 13,804	$ (320,031)	$ 2,995,143	$ 301,997

Changes in long-term liabilities for the year ended June 30, 2015, were as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015	Amounts Due Within One Year
Loan					
Stockman Bank	$ 452,504	$ --	$ (30,056)	$ 422,448	$ 31,935
USDA Rural Development	578,763	--	(11,963)	566,800	12,407
General Obligation Bond	2,400,000	--	(195,000)	2,205,000	205,000
Mid-Rivers Communications	4,167	--	(4,167)	--	--
Key Equipment Lease	--	15,100	(374)	14,726	4,488
Intercap Loan	147,876	--	(55,480)	92,396	59,786
	$ 3,583,310	$ 15,100	$ (297,040)	$ 3,301,370	$ 313,616

The College had one capital lease as of June 30, 2015, and two capital leases as of June 30, 2016. The following is an analysis of the leased assets included in equipment:

	June 30, 2016	June 30, 2015
Leased equipment	$ 28,904	$ 15,100
Accumulated depreciation	(12,955)	(250)
	$ 15,949	$ 14,850

Long-term debt consists of the following at June 30, 2016 and 2015:

	June 30, 2016	June 30, 2015
In 2016, the College entered into an equipment lease agreement, the lease extends through November 2017. The College will pay $4,518 annually.	$ 9,036	$ --
In 2015, the College entered into an equipment lease agreement, the lease extends through May 2019. The College will pay $374 monthly for the remainder of the term.	10,238	14,726
Note payable to Stockman Bank of $700,000 originated on February 21, 2000. Payments of $58,250 including both principal and interest, are due February 10 each year. The note will mature in 2025. Interest is payable at 6.25% per annum, with the interest rate to be recalculated every five years. This note is secured by the dormitory and its contents; by deeds of trust on real estate and improvements of the student dormitories and adjacent parking area; and by any fixtures and equipment located in the dormitories, along with an assignment of rental revenue from all student dormitories owned by the College. Additionally, the USDA provided an 80% guarantee on the note.	389,108	422,448
Note payable to the United States Department of Agriculture – Rural Development, originated on February 21, 2000, for $700,000. Principal and interest payments of $39,410 are due on February 21 each year for 40 years. Interest is payable at 4.75% per annum. This note is secured by an assignment of rental revenues from all existing and hereinafter acquired student dormitory facilities owned by the College.	555,714	566,800
On September 1, 2004, the College issued general obligation bonds at a purchase price of $4,000,000 and an interest rate of 2.9% - 4.35% to pay a portion of the costs of designing, constructing, furnishing and equipping a library and learning center expansion project and for the construction of a new performing arts center/gymnasium. The bonds bear interest payable semiannually on January 1 and July 1 each year, commencing January 1, 2005. The bonds mature beginning July 1, 2005 through 2022.	2,000,000	2,205,000
The Intercap Loan of $500,000 originated on May 5, 2006. Payments of principal and interest due semiannually on February 15 and August 15. Payments consist of principal and a variable interest portion. The original stated interest rate was 4.75%; however, for the year ended June 30, 2016 and June 30, 2015, the interest rate was 1.25% and 1.00%, respectively. The loan is secured by the aforementioned construction project.	31,047	92,396
Total long-term debt	2,995,143	3,301,370
Less current maturities	(301,997)	(313,616)
Total long-term debt, net	$ 2,693,146	$ 2,987,754

Approximate future annual minimum principal and interest payments as of June 30, 2016, are as follows:

Year ending June 30,	Principal	Interest	Total
2017	$ 301,998	$ 126,602	$ 428,600
2018	279,083	116,581	395,664
2019	283,846	106,770	390,616
2020	300,786	95,274	396,060
2021	314,046	83,848	397,894
2022-2026	1,122,896	234,039	1,356,935
2027-2031	114,791	82,259	197,050
2032-2036	144,769	52,280	197,049
2037-2041	132,928	15,043	147,971
Total	$ 2,995,143	$ 912,696	$ 3,907,839

The United States Department of Agriculture – Rural Development loan is secured by a pledge of revenue from operation of the dormitory. There was $298,812 in pledged revenue generated from the operations of the dormitory to cover the debt service for the United States Department of Agriculture – Rural Development loan. The total debt service for this loan during the year ended June 30, 2016 and 2015, was $12,423 and $11,963, respectively.

Note 8 – Retirement Plans

The College participates in two state-wide, multiple-employer, cost-sharing retirement plans which cover all employees, except some substitute and part-time, non-teaching employees.

Plan Descriptions

The TRS is a mandatory-participation multiple-employer cost sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana.

The TRS Board is the governing body and the TRS staff administers the system in conformity with the laws set forth in Table 19, chapter 20 of Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structures, and prior years' actuarial valuations as well as links to applicable statues and administrative rules, may be obtained by visiting the TRS website at trs.mt.gov.

The Public Employees Retirement System (PERS) Defined Benefit Retirement Plan (DBRP), administered by MPERA, is a multiple-employer, cost-sharing plan, established July 1, 1945 and governed by Title 19, chapters 2 and 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System and school districts.

All new members are initially members of the PERS-DBRP and a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits

TRS:
Through June 30, 2013, all members enrolled in TRS participated in single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation (AFC). Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has one percent higher normal employee contributions rate (though a temporary 1% supplemental employee contribution rate is also now in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation – 1.85% x AFC x years of creditable service – for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service).

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members GABA each year may vary from 0.5% to 1.5% based on retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

PERS:

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any conservative 60 months;
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's HAC.

Eligibility for benefit
Service retirement:

Hired prior to July 1, 2011:	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011:	Age of 65, 5 years of membership service; or Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011:	Age 55, 5 years of membership service.

Vesting
5 years of membership service

Monthly benefit formula
Members hired prior to July 1, 2011:

Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit.

Member hired on or after July 1, 2011:

Less than 10 years of membership service: 1.5% of HAC per year of service credit;
10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
30 years of more of membership service: 2% of HAC per year of service credit.

GABA

3% for members hired prior to July 1, 2007
1.5% for members hired on or after July 1, 2007
Members hired on or after July 1, 2013:
(a) 1.5% for each year PERS is funded at or above 90%;
(b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
(c) 0% whenever the amortization period for PERS is 40 years or more.

Overview of Contributions

TRS:

TRS receives a portion of the total required statutory contribution directly from the State for all employers. The employers are considered to be in a special funding situation as defined by GASB 68 and the State is treated as a non-employer contributing entity in TRS. TRS receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers. The System also receives 0.11% of reportable compensation from the State's general fund for State and University Employers. Finally, the State is also required to contribute $25 million in perpetuity payable July 1st of each year.

MCA 19-20-605 requires each employer to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position. Pursuant to MCA 19-20-609, this amount shall increase by 1.00% for fiscal year 2014 and increase by .10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of re-employed retiree compensation.

PERS:

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.

2. Member contributions to the system:
   a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
   b. The 7.90% member contributions is temporary and will be decreased to 6.90% on January 1 following actuary valuation results that show that amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

3. Employer contributions to the system:
   a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
   b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
   c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

4. Non-Employer Contributions
   a. Special Funding
      i. The State contributes 0.1% of members' compensation on behalf of local government entities.
      ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
   b. Not Special Funding
      i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

Net Pension Liability, Pension Expense (Revenue), and Deferred Outflows and Inflows of Resources Related to Pensions:

At June 30, 2016 and 2015, respectively, the College recorded a liability of $1,748,471 and $1,653,808 (TRS) and $913,989 and $811,511 (PERS) for its proportionate share of the net pension liability.

In accordance with GASB Statement No. 68, TRS and PERS have a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS and PERS on behalf of the College. Due to the existence of this special funding situation, the College is required to report the portion of the State of Montana's proportionate share of the collective net pension liability that is associated with the College.

The State of Montana also has a funding situation that is not special funding whereby the State General Fund provides contributions for PERS from the Coal Severance Tax and Interest. All employers are required to report the portion of the Coal Severance Tax and Interest attributable to the employer.

The College's and State of Montana's proportionate share of the net pension liability are presented below:

	Net Pension Liability June 30, 2016		Net Pension Liability June 30, 2015	
	TRS	PERS	TRS	PERS
College proportionate share	$ 1,748,471	$ 913,989	$ 1,653,808	$ 811,511
State of Montana proportionate share associated with the College	1,177,834	11,227	1,135,292	9,910
	$ 2,926,305	$ 925,216	$ 2,789,100	$ 821,421

TRS:
For the fiscal year ended June 30, 2016 and 2015, the net pension liability was measured as of June 30, 2015 and June 30, 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The College's proportion of the net pension liability was based on the contributions received by TRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all TRS' participating employers. At June 30, 2016, the College's proportion was 0.1064 percent and 0.1075 percent at June 30, 2015.

Changes in actuarial assumptions and other inputs: Since the previous measurement date the following changes were made:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral periods for the Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increase observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.

- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (They are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the $500 death benefit after termination.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the College's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

PERS:
For the fiscal year ended June 30, 2016 and 2015, the net pension liability was measured as of June 30, 2015 and June 30, 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 with update procedures to roll forward the Total Pension Liability to the measurement date of June 30, 2015. The College's proportion of the net pension liability was based on the contributions received by PERS during the measurement period June 30, 2015 and for the measurement period July 1, 2013 through June 30, 2014, respectively, relative to the total employer contributions received from all PERS participating employers. At June 30, 2016, the College's proportionate share was .065384 percent and at June 30, 2015, the College's proportionate share was .065129 percent.

Changes in actuarial assumptions and other inputs: There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the College's reporting date some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL.

At June 30, 2016, the College recognized $161,061 (TRS) and $62,919 (PERS) for its proportionate share of the pension expense. The College also recognized grant revenue of $48,693 (TRS) and $698 (PERS) for the support provided by the State of Montana for its proportionate share of the pension expense associated with the College.

At June 30, 2016, the College reports its proportionate share of TRS and PERS deferred outflows and inflows of resources from the following sources:

TRS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 18,437	$ --
Changes in assumptions or other inputs	24,744	3,693
Net differences between projected and actual earnings on pension plan	--	93,891
Differences between expected and actual contributions	19,761	--
College's contributions subsequent to the measurement date	138,615	--
Total	$ 201,557	$ 97,584

PERS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ --	S 5,530
Changes in assumptions or other inputs	--	--
Net differences between projected and actual earnings on pension plan investments	--	77,379
Changes in the employer's portion and differences between employer's contributions and the employer's proportionate contributions	6,700	--
College's contributions subsequent to the measurement date	71,635	--
Total	$ 78,335	$ 82,909

Amounts reported as deferred outflows of resources related to pensions resulting from the College's contributions subsequent to measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2017.

At June 30, 2015, the College recognized $175,818 (TRS) and $63,328 (PERS) for its proportionate share of the pension expense. The College also recognized grant revenue of $63,572 (TRS) and $22,946 (PERS) for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the College.

At June 30, 2015, the College reports its proportionate share of TRS and PERS deferred outflows and inflows of resources from the following sources:

TRS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 16,360	S --
Changes in assumptions or other inputs	37,482	--
Net differences between projected and actual earnings on pension plan	--	256,152
Differences between expected and actual contributions	25,628	--
College's contributions subsequent to the measurement date	159,752	--
Total	$ 239,222	$ 256,152

PERS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ --	S --
Changes in assumptions or other inputs	--	--
Net differences between projected and actual earnings on pension plan	--	209,681
Differences between expected and actual contributions	2,290	27
College's contributions subsequent to the measurement date	75,556	--
Total	$ 77,846	$ 209,708

Amounts reported as deferred outflows of resources related to pensions resulting from the College's contributions subsequent to measurement date was recognized as a reduction of the net pension liability for the year ended June 30, 2016.

Other amounts reported as deferred outflows and inflows of resources to pensions will be recognized in pension expense as follows:

	TRS				PERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Increase (Decrease) in Pension Expense		Deferred Outflow/ Inflow of Resources	Increase (Decrease) in Pension Expense
Year ended June 30:						
2017	$ 29,880	$ 40,603	$ (10,723)		$ (31,857)	$ (31,857)
2018	29,887	40,603	(10,716)		(31,857)	(31,857)
2019	3,177	40,603	(37,286)		(32,620)	(32,620)
2020	24,086	--	24,083		20,125	20,125

Actuarial Assumptions:

TRS:

The Total Pension Liability as of June 30, 2015, is based on the results of an actuarial valuation date of July 1, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2015 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total Wage Increases * — 4% - 8.51% for Non-University Members and 5.00% for University Members
- Investment Return — 7.75%
- Price Inflation — 3.25%
- Postretirement Benefit Increases
  - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
  - Tier Two Members: The retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries:
  - For Males: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the 1992 Base Rates from RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.

- Mortality among disabled members:
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

*Total Wage Increases include 4% general wage increase assumption.

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of July 1, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

• Total Wage Increases *	8.15%
• Investment Return	7.75%
• Price Inflation	3.25%
• Postretirement Benefit Increases (starting three years after retirement)	1.50%

- Mortality among contributing members, service retired members, and beneficiaries:
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members:
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

*Total Wage Increases include 4% general wage increase and 4.51% merit and longevity increases.

PERS:
The Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation of June 30, 2014, with update procedures to roll forward the Total Pension Liability to June 30, 2015. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, date June 2010 for the six year period July 1, 2003 to June 30, 2009. Amount those assumptions were the following:

• Investment Return	7.75%
• Admin Expense as % of Payroll	0.27%
• General Wage Growth *	4.00%
• *includes Inflation at	3.00%
• Merit Increases	0% to 6%

- Postretirement Benefit Increases
  Guaranteed Annual Benefit Adjustment (GABA)
  After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit
  - 3% for members hired prior to July 1, 2007
  - 1.5% for members hired between July 1, 2007 and June 30, 2013
  - Members hired on or after July 1, 2013:
    - (a) 1.5% for each year PERS is funded at or above 90%;
    - (b) 1.5% is reduced by 0.1% for each 2% PERS is fund below 90%; and
    - (c) 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Mortality Tables Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

• General Wage Growth *	4.00%
• *includes Inflation at	3.00%
• Merit Increases	0% to 6%
• Investment Return	7.75%

- Postretirement Benefit Increases
  - 3% for members hired prior to July 1, 2007
  - 1.5% for members hired on or after July 1, 2007

After the member has completed 12 full months of retirement, the member's benefit increase by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

*At June 30, 2015 as a result of permanent injunction issued in the *AMPRE vs State* litigation, the GABA rate in effect was being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013, was still pending.

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections.

Discount Rate:

TRS:

The discount rate used to measure the total pension liability was 7.75% for both fiscal year's ended June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute $25 million annually to TRS payable July 1st of each year. Based on those assumptions, the fiduciary net position of TRS was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2119. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

PERS:

The discount rate used to measure the total pension liability was 7.75% for both fiscal year's ended June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the fiduciary net position of PERS was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations for June 30, 2016 were:

	TRS			PERS	
Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis *	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	N/A	N/A	N/A	2.00%	-0.25%
Board US Equity/ Domestic Equity	36.00%	4.80%	1.73%	36.00%	4.55%
Broad International Equity/Foreign Equity	18.00%	6.05%	1.09%	18.00%	6.10%
Fixed Income	N/A	N/A	N/A	24.00%	1.25%
Private Equity	12.00%	8.50%	1.02%	12.00%	8.00%
Intermediate Bonds	23.40%	1.50%	0.35%	N/A	N/A
Core Real Estate	4.00%	4.50%	0.18%	8.00%	4.25%
High Yield Bonds	2.60%	3.25%	0.08%	N/A	N/A
Non-Core Real Estate	4.00%	7.50%	0.30%	N/A	N/A
	100.00%		4.75%	100.00%	
		Inflation	3.25%		
		Expected arithmetic nominal return	8.00%		

*The long-term expected nominal rate of return above of 8.00% differs from the total TRS long-term rate of return assumption of 7.75%. The assumed rate is comprised of 3.25% inflation rate and a real long-term rate of return of 4.50%

Target Allocations for June 30, 2015 were:

	TRS		PERS	
Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	N/A	N/A	2.00%	-0.25%
Board US Equity/Domestic Equity	36.00%	4.80%	36.00%	4.80%
Board International Equity/ Foreign Equity	18.00%	6.05%	18.00%	6.05%
Private Equity	12.00%	8.50%	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%	N/A	N/A
Core Real Estate	4.00%	4.50%	8.00%	4.50%
Fixed Income	N/A	N/A	24.00%	1.68%
High Yield Bonds	2.60%	3.25%	N/A	N/A
Non-Core Real Estate	4.00%	7.50%	N/A	N/A
	100.00%		100.00%	

TRS:
The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years for TRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report date May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class include TRS's target asset allocation as of June 30, 2016 and 2015, is summarized in the table above.

PERS:
The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for PERS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors ae considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building blocks method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimate of arithmetic real rates of return for each major class include PERS' target asset allocation as of June 30, 2016 and 2015, is summarized in the table above.

Sensitivity Analysis:

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the tables below present the net pension liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that was 1.00% lower (6.75%) and 1.00% higher (8.75%) than the current rate.

June 30, 2016 -

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability – TRS	$ 2,402,258	$ 1,748,471	$ 1,198,346
Net pension liability - PERS	$ 1,409,174	$ 913,989	$ 495,818

June 30, 2015 -

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability – TRS	$ 2,297,665	$ 1,653,808	$ 1,109,848
Net pension liability - PERS	$ 1,291,030	$ 811,511	$ 407,083

Note 9 – Postemployment Benefits Other Than Pensions

Montana State law requires state agencies to provide access to health insurance benefits to eligible retirees up to Medicare-eligible age (65) (Sec. 2-18-704(1)(a), MCA). The Board of Regents of the Montana University System (MUS), having broad authority to act in the best interest of the MUS, has directed the Office of the Commissioner of Higher Education (OCHE) to provide access to health insurance benefits beyond age 65. Eligible College retirees may participate in the health insurance plan provided that they contribute to the cost of the plan.

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

Retirees who are eligible to receive retirement benefits from TRS or the PERS at the time employment ceases may participate in the plan. Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan associated with the MUS must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for retiree benefits.

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

The plan is considered to be a multi-employer agent plan. All units of the MUS fund the postemployment benefits on a pay-as-you-go basis from general assets. The College's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents an amount that, if funded, would cover normal cost each year, the obligations were based on the July 1, 2015 census. At that time, the number of active College participants in the health insurance plan was 53. The total number of inactive (retiree and dependent) participants was 29. The College does not contribute to the plan for retirees or their dependents.

Annual OPEB Cost and Net OPEB Obligations

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

	2016	2015
Annual Required Contribution	$ 93,565	$ 82,692
Interest on net OPEB obligation	5,070	11,703
Annual OPEB cost (expense)	98,635	94,395
Estimated contributions made	(26,658)	(29,575)
Increase in net OPEB obligation	71,977	64,820
Net OPEB obligation – beginning of year	950,562	885,742
Net OPEB obligation – end of year	$ 1,022,539	$ 950,562

Three year trend disclosure information of the College's plan is as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributions	Percentage of Annual OPEB Cost	Net Liability
June 30, 2016	$ 98,635	$ 93,565	94.86%	$ 1,022,539
June 30, 2015	$ 94,395	$ 82,692	87.60%	$ 950,562
June 30, 2014	$ 76,944	$ 42,572	55.33%	$ 885,742

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

- Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.
- Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.
- Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets.
- The actuarial methods and significant assumptions are
    - Projected Unit cost funding method
    - Discount rate is 4.25%
    - Projected payroll increase 2.5%
    - Healthcare cost trend rate is 7% for plan year 2015 grading to 4.5% for plan year 2020
    - Past service liability is amortized over a closed 30-year period as a level percentage of projected payroll assumed to grow 2.5% per year.

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was $1.45 million. The plan is considered to be unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the plan is unfunded, the AAL and UAAL are equal. The covered payroll (annual payroll of active employees covered by the plan) was $2.5 million and the ratio of the UAAL to the covered payroll was 59.16%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions above the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Note 10 – Operating Lease Obligations

The College leases an arena for the rodeo teams' use. The lease is for a two year term which began with the 2013 fall semester. The College leases the arena for six months during the school year and has renewed the lease. The current lease is dated December 12, 2016 and covers the 2016-2017 school year.

During the years ended June 30, 2016 and 2015, rental under long-term lease obligations were $11,500 and $11,500, respectively.

Note 11 – Subsequent Events

In May and August of 2016, five faculty members of the College filed wage claims for vacation and holiday pay earned from April 2014 to April 2016. A Determination dated July 29, 2016 held that the faculty members were entitled to annual vacation pay, holiday pay and penalties totaling $82,024, plus credits of accrued annual leave added to current leave balances. The College appealed. On November 10, 2016, the Employer Relations Division of the Montana Department of Labor and Industry issued a Redetermination and Dismissal. The faculty members retained the right to appeal and subsequently filed appeals on November 28, 2016. A case is currently in mediation.

Note 12 – Component Unit – Dawson College Foundation, Inc.

Organization

The Dawson College Foundation, Inc. (the Foundation) has been organized to coordinate fund-raising activities for the local College. These include the long-term care of and building of additional facilities at the College located in Glendive, Montana. The Foundation uses funds to assist in purchasing needed educational equipment and supplies.

Basis of Procedures

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

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

Investments

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

	October 31, 2015	October 31, 2014
Certificate of deposit	$ 317,097	$ 315,455
Charles Schwaab – Hoyt account	407,674	393,853
Charles Schwaab – basketball fund	34,634	32,609
Edward Jones – managed account	187,853	188,550
Edward Jones – stocks, mutual funds	109,700	112,882
Edward Jones – bonds	126,946	127,699
Total restricted cash	$ 1,183,904	$ 1,171,048

Endowment

The Foundation's endowment consists of individual endowments established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Market value of the endowments funds included in total investments for the years ended October 31, 2015 and 2014 are $943,243 and $811,411, respectively.

Direct investment management, custodial and consulting fees for the Foundation's endowment funds totaled $3,306 and $3,218 for the years ended October 31, 2015 and 2014, respectively. These fees have been included as reductions to investment income.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor required the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets, and subsequent gains that restore the fair value of the assets of the endowment fund to the required level are recorded as an increase in unrestricted net assets.

The Foundation's goal for its endowments is to provide a real rate of return (total return minus investment expenses, and administration fees) sufficient, in perpetuity, the purposes of the various endowments. The endowment spending allowance policy is also structured to help maintain the endowments in perpetuity, preserve their purchasing power and stabilize the flow of support for the purposes of the respective endowments. The spending allowance for each endowment for the year ended October 31, 2014, was limited to the unexpected accumulated earnings or return (both realized and unrealized) of the respective endowment, unless otherwise provided by the donor.

DAWSON COMMUNITY COLLEGE

June 30, 2016 and 2015

REQUIRED SUPPLEMENTARY INFORMATION

Dawson Community College

Other Postemployment Benefits – Schedule of Funding Progress

June 30, 2016 and 2015

Acturial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL)(b/a)	Funded Ration(a/b)	Covered Payroll(c)	UAAL as a Percentage of Payroll ((b-a)/c)
July 1, 2015	$ --	$ 1,453,360	$ 1,453,360	0.00%	$ 2,456,852	59.16%
July 1, 2013	$ --	1,075,475	1,075,475	0.00%	2,527,390	42.55%
July 1, 2011	$ --	1,234,517	1,234,517	0.00%	2,641,259	46.74%

Dawson Community College

Schedule of Employer's Share of Net Pension Liability

Years Ended June 30, 2016 and 2015

Schedule of Employer's Share of Net Pension Liability
Teacher's Retirement System of Montana
Last 10 – Fiscal Years *

	2016		2015
Employer's proportionate share of the net pension liability	0.1064%		0.1075%
Employer's proportionate share of the net pension liability associated with the Employer	$1,748,471		$1,653,808
State of Montana's proportionate share of the net pension liability associated with the Employer	$1,177,834		$1,135,292
Total	$2,926,305		$2,789,100
Employer's covered-employee payroll	$1,358,278		$1,355,289
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	128.73%		122.03%
Plan fiduciary net position as a percentage of the total pension liability	69.03%		70.36%

Schedule of Employer's Share of Net Pension Liability
Public Employees Retirement System of Montana
Last 10 – Fiscal Years *

	2016		2015
Employer's proportionate share of the net pension liability	0.065384%		0.065129%
Employer's proportionate share of the net pension liability associated with the Employer	$ 913,989		$ 811,511
State of Montana's proportionate share of the net pension liability associated with the Employer	$ 11,227		$ 9,910
Total	$ 925,216		$ 821,420
Employer's pensionable payroll	$ 763,048		$ 737,256
Employer's proportionate share of the net pension liability as a percentage of its pensionable payroll	119.781%		110.072%
Plan fiduciary net position as a percentage of the total pension liability	78.40%		79.90%

* GASB Statement No. 68 required ten years of information to be presented in the table. However, until a full 10-year trend is compiled, the College will present information for those years for which information is available.

Data reported is measured as of July 1, 2015 and July 1, 2014, respectively.

Dawson Community College

Schedule of Employer's Contributions
Years Ended June 30, 2016 and 2015

Schedule of Employer Contributions
Teacher's Retirement System of Montana
Last 10 - Fiscal Years *

	2016		2015
Statutorily required contribution	$ 138,615		$ 159,752
Contributions in relation to the statutorily required contribution	$ 138,615		$ 159,752
Contribution (deficiency) excess	$ --		$ --
Employer's covered – employee payroll	$ 1,172,117		$ 1,358,278
Contributions as a percentage of the covered-employee payroll	11.83%		11.76%

Schedule of Employer Contributions
Public Employees Retirement System of Montana
Last 10 - Fiscal Years *

	2016		2015
Statutorily required contribution	$ 71,635		$ 68,990
Contributions in relation to the statutorily required contribution	$ 71,635		$ 68,990
Contribution (deficiency) excess	$ --		$ --
Employer's covered – employee payroll	$ 775,241		$ 763,048
Contributions as a percentage of the covered-employee payroll	9.240%		9.041%

* GASB Statement No. 68 required ten years of information to be presented in the table. However, until a full 10-year trend is compiled, the College will present information for those years for which information is available.

Data reported is presented for the fiscal years ended June 30, 2016 and June 30, 2015, respectively.

Changes of Benefit Terms

The following changes to the plan provision were made as identified:

TRS:

The 2013 Montana Legislature passed HB377 which provides additional revenue and created a two tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013 and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013 or after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

The GABA for Tier 1 members has also been modified as follows:

- If the most recent actuarial valuation of the System shows that the funded ratio is less than 90%, then the maximum increase that can be granted is 0.50%.
- If the funded ratio is at least 90% and the increase is not projected to cause the System's funded ration to be less than 85%, an increase can be granted that is greater than 0.50% but not more than 1.50%.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below:

(1) **Final Average Compensation:** Average of earned compensation paid in five consecutive years of full-time service that yields the highest average.
(2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55.
(3) **Early Retirement:** Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55.
(4) **Professional Retirement Option:** If the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%.
(5) **Annual Contribution:** 8.15% of member's earned compensation.
(6) **Supplemental Contribution Rate:** On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
    a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
    b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
    c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board
(7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination.
(8) **Guaranteed Annual Benefit Adjustment (GABA):**
    a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 855 funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

HB 377 increased revenue from the members, employers and the State as follows:

- Annual State contribution equal to $25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was $22 million in FY2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
    - School Districts contributions will increase from 7.47% to 8.47%
    - The Montana University System and State Agencies will increase from 9.85% to 10.85%
    - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 through fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Changes in actuarial assumptions and other inputs:

The following changes to the actuarial assumptions were adopted in 2015:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 90. 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested termination are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the $500 death benefit after termination.

The following changes to the actuarial assumptions were adopted in 2014:

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.

- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was update to the following:
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvement projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvement projected by Scale BB to 2018.

Methods and assumptions used in calculations of actuarially determined contributions:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	26 years
Asset valuation method	4-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 to 8.51 percent, including inflation for Non-University Members and 5.00 % for University Members;
Investment rate of return	7.75 percent, net of pension plan investment Expense, and including inflation

PERS:

2013 Legislative Changes:

<u>Working Retirees</u> – House Bill 95 – PERS, SRS, and FURS, effective July 1, 2013

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. PERS work retirees may still work up to 960 hours a year, without impacting benefits.

<u>Highest Average Compensation (HAC) Cap</u> – House Bill 97, effective July 1, 2013

All PERS members hired on or after July 1, 2013 ae subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.

All bonuses paid to PERS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

<u>House Bill 454 – Permanent Injunction Limits Application of GABA reduction passed under HB454</u>

Guaranteed Annual Benefit Adjustment (GABA) – for PERS

- After the member has completed 12 full months of retirement, the member's benefit increase by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.
- *3% for members hired **prior** to July 1 , 2007*
- 1.5% for members hired **on or after** July 1, 2007 and **before** July 1, 2013
- Members hired **on or after** July 1, 2013
  - (a) 1.5% each year PERS is funded at or above 90%;
  - (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
  - (c) 0% whenever the amortization period for PERS is 40 years or more.

2015 Legislative Changes:

General Revisions – House Bill 101, effective January 1, 2016

Second Retirement Benefit – for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
   - Refund of member's contributions from second employment plus regular interest (currently 0.25%);
   - No service credit for second employment;
   - Start same amount the month following termination; and
   - GABA starts again in the January immediately following second retirement.

2) For members who retire **before January 1 ,2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:**
   - Member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
   - GABA starts in the January after receiving recalculated benefit for 12 months.

3) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:**
   - Refund of member's contributions from second employment plus regular (currently 0.25%);
   - No service credit for second employment;
   - State same benefit amount the month following termination; and,
   - GABA starts again in the January immediately following second retirement.

4) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:**
   - Member receives same retirement benefit as prior to return to service;
   - Member receives second retirement benefit for second period of service based on laws in effect at second retirement; and,
   - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funding Laws – House Bill 107, effective July 1, 2015

Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

Admin Expense as % of payroll	0.27%

The following changes were adopted in 2013 based on the 2013 Economic Experience study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth*	4.25%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8%, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

DAWSON COMMUNITY COLLEGE

June 30, 2016 and 2015

SUPPLEMENTARY INFORMATION

Dawson Community College

Student Financial Aid – Modified Statement of Cash Receipts and Disbursements

Year Ended June 30, 2016

	Pell	Perkins	CWS	SEOG
Assets				
Beginning cash balance	$ (3,622)	$ 12,738	$ 4,674	$ 3,288
Additions				
Federal advances	318,034	--	13,515	43,079
Interest collected	--	327	--	--
Principal collected	--	6,041	--	--
Total additions	318,034	6,368	13,515	43,079
Deductions				
Distribution to students	302,806	5,358	13,444	31,434
Other	--	3,381	--	--
Total deductions	302,806	8,739	13,444	31,434
Net change in cash	(2,772)	(2,371)	71	11,645
Ending cash balance	$ (6,394)	$ 10,367	$ 4,745	$ 14,933

Dawson Community College

Student Financial Aid – Modified Statement of Cash Receipts and Disbursements

Year Ended June 30, 2015

	Pell	Perkins	CWS	SEOG
Assets				
Beginning cash balance	$ (4,822)	$ 11,479	$ 4,840	$ 2,480
Additions				
Federal advances	419,376	--	24,909	46,690
Interest collected	--	457	--	--
Principal collected	--	13,399	--	--
Total additions	419,376	13,856	24,909	46,690
Deductions				
Distribution to students	418,176	8,399	25,075	45,882
Other	--	4,198	--	--
Total deductions	418,176	12,597	25,075	45,882
Net change in cash	1,200	1,257	(166)	808
Ending cash balance	$ (3,622)	$ 12,738	$ 4,674	$ 3,288

Dawson Community College

Schedule of Expenditures – Student Financial Assistance Programs

Years Ended June 30, 2016 and 2015

	2016	2015
Perkins Loan Programs		
Student loan advances	$ 5,358	$ 8,399
College Work Study		
Wages	$ 13,444	$ 25,075
Supplemental Education Opportunity Grant Program		
Student grants	$ 31,434	$ 45,882
Pell Grant Program		
Student grants	$ 302,806	$ 418,176

Dawson Community College

Schedule of Full Time Equivalent

Years Ended June 30, 2016 and 2015

Semester	Resident	WUE	Nonresident	Total
2016				
Summer 2015	17.7	2.3	19.3	39.3
Fall 2015	152.8	40.9	30.3	224.0
Spring 2016	138.7	34.0	38.1	210.8
	309.2	77.2	87.7	474.1

Semester	Resident	WUE	Nonresident	Total
2015				
Summer 2014	40.5	2.2	10.7	53.4
Fall 2014	205.3	47.5	17.1	269.9
Spring 2015	196.8	42.7	14.5	254.0
	442.6	92.4	42.3	577.3

Dawson Community College

Functional Classification of Operating Expenses

Year Ended June 30, 2016

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships And Fellowships	Operations and Maintenance of Plant	Auxiliary	Total
Salaries	$ 1,210,969	$ 108,040	$ 293,537	$ 531,606	$ --	$ 162,564	$ 150,135	$ 2,456,851
Benefits	516,678	40,118	129,429	199,446	--	70,725	74,223	1,030,619
Travel	32,280	--	239,936	22,236	--	41	688	295,181
Supplies	48,596	5,756	60,218	67,203	--	32,264	80,186	294,223
Contracted services	288,233	8,033	70,118	322,503	--	66,778	203,159	958,824
Repairs and maintenance	774	--	3,965	7,521	--	76,741	93	89,094
Utilities	4,878	--	--	4,419	--	95,005	50,621	154,923
Communication	4,008	--	19,950	15,374	--	33,284	38,601	111,217
Scholarships and grants	--	--	--	--	511,552	--	--	511,552
Other operating expense	7,983	19,330	13,289	45,641	--	842	51,747	138,832
Depreciation	--	--	--	--	--	405,345	--	405,345
Total	$ 2,114,399	$ 181,277	$ 830,442	$ 1,215,949	$ 511,552	$ 943,592	$ 649,453	$ 6,446,661

Dawson Community College

Functional Classification of Operating Expenses

Year Ended June 30, 2015

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships And Fellowships	Operations and Maintenance of Plant	Auxiliary	Total
Salaries	$ 1,399,272	$ 225,965	$ 354,419	$ 376,148	$ --	$ 152,300	$ 127,529	$ 2,635,633
Benefits	490,104	69,209	125,265	142,119	--	57,470	55,567	939,734
Travel	32,732	1,352	201,619	17,691	--	--	2,845	256,239
Supplies	120,208	5,900	55,308	79,504	--	25,499	137,570	423,989
Contracted services	237,380	8,057	30,691	262,316	--	12,325	269,172	819,941
Repairs and maintenance	2,489	--	6,797	25,573	--	45,864	7,914	88,637
Utilities	--	--	2,941	6,209	--	111,052	52,429	172,631
Communication	4,669	--	25,801	10,729	--	21,629	14,039	76,867
Scholarships and grants	--	--	--	--	569,955	--	--	569,955
Other operating expense	(17,830)	22,339	45,879	165,074	--	644	20,225	236,331
Depreciation	--	--	--	--	--	390,943	--	390,943
Total	$ 2,269,024	$ 338,822	$ 848,720	$ 1,085,363	$ 569,955	$ 817,726	$ 687,290	$ 6,610,900

DAWSON COMMUNITY COLLEGE

June 30, 2016 and 2015

OTHER INFORMATION

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Dawson Community College
Glendive, Montana

We have audited, 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, the financial statements of Dawson Community College (the College) as of and for the year ended June 30, 2016 and the related notes to the financial statements, and have issued our report dated February 17, 2017. Our report includes a reference to other auditors who audited the financial statements of Dawson Community College Foundation (the Foundation), as described in our report on the College's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-A, that we considered to be a significant deficiency.

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

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

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

Eide Bailly LLP

Boise, Idaho
February 17, 2017

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Trustees
Dawson Community College
Glendive, Montana

Report on Compliance for Each Major Federal Program
We have audited Dawson Community College's (the College) compliance with the types of compliance requirements described in the *OMB A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the years ended June 30, 2016 and 2015. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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

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

Basis for Qualified Opinion on the Student Financial Aid Cluster
As described in the accompanying schedule of findings and questioned costs, Dawson Community College did not comply with requirements regarding the Student Financial Aid Cluster (CFDA 84.007, 84.003, 84.063, 84.268) as described in finding numbers 2016-001 for Eligibility and Special Tests and Provision. Compliance with such requirements is necessary, in our opinion, for Dawson Community College to comply with the requirements applicable to that program.

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

Qualified Opinion on the Student Financial Aid Cluster
In our opinion, except for the noncompliance described in the Basis of Qualified Opinion paragraph, Dawson Community College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Student Financial Aid Cluster for the years ended June 30, 2016 and 2015.

Opinion on Each of the Other Major Federal Programs
In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the years ended June 30, 2016 and 2015.

Other Matters
The College's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-002 to be a significant deficiency.

The College's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Eide Bailly LLP

Boise, Idaho
February 17, 2017

Dawson Community College

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Entity ID Number	Federal Expenditures
U.S. Department of Education			
Student Financial Assistance:			
Supplemental Opportunity Grant Program (SEOG)	84.007		$ 36,024
Federal College Work Study	84.033		13,112
Federal Direct Student Loans	84.268		536,733
Pell Grant Program	84.063		320,291
Perkins Loan Program	84.038		8,902
Total Student Financial Assistance			915,062
TRIO Student Support Services	84.042A		73,688
Total			73,688
Gear Up	84.334S		27,467
Passed through Montana Office of Public Instruction			
Adult Basic Education	84.002	Not available	22,645
Total U.S. Department of Education			1,038,862
U.S. Department of Labor			
Employment and Training Administration			
TAACCCT/SWAMMEI/REVUP	17.282		253,139
Total U.S. Department of Labor			253,139
U.S. Department of Health and Human Services			
Passed through Montana Department of Public Health and Human Services			
ECHO – Higher Education	93.575	Not available	57,091
Total U.S. Department of Health and Human Services			57,091
Total Federal Financial Assistance			$ 1,349,092

Dawson Community College

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

	Federal CFDA Number	Pass-Through Entity ID Number	Federal Expenditures
U.S. Department of Education			
Student Financial Assistance:			
Supplemental Opportunity Grant Program (SEOG)	84.007		$ 34,234
Federal College Work Study	84.033		19,042
Federal Direct Student Loans	84.268		563,864
Pell Grant Program	84.063		412,425
Perkins Loan Program	84.038		12,371
Total Student Financial Assistance			1,041,936
TRIO Student Support Services	84.042A		30,858
TRIO Student Support Services	84.042A		173,221
Total			204,079
Gear Up	84.334S		59,386
Passed through Montana Office of Public Instruction			
Adult Basic Education	84.002	Not available	22,645
Total U.S. Department of Education			1,328,046
U.S. Department of Labor			
Employment and Training Administration			
TAACCCT/SWAMMEI/REVUP	17.282		165,595
Total U.S. Department of Labor			165,595
U.S. Department of Health and Human Services			
Passed through Montana Department of Public Health and Human Services			
ECHO – Higher Education	93.575	Not available	66,493
Total U.S. Department of Health and Human Services			66,493
Total Federal Financial Assistance			$ 1,560,134

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Dawson Community College (the College), and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations* and the Uniform Guidance. The College, received federal awards both directly from federal agencies and indirectly through pass-through entities.

Note B – Significant Accounting Policies

Governmental fund types account for the College's federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. The College's summary of significant accounting policies is presented in Note 1 in the College's basic financial statements.

The College has not elected to use the 10% de minimis cost.

Note C - Federal Student Loan Programs

The federal student loan programs listed subsequently are administered directly by the College and balances and transactions relating to these programs are included in the College's basic financial statements. Loans made during the year are included in the federal expenditures presented in the schedule. The balance of loans outstanding at June 30, 2016 and 2015 consists of:

CFDA Number	***Program Name***	***Outstanding Balance at*** *June 30, 2016*	***Outstanding Balance at*** *June 30, 2015*
84.038	Perkins Loan Program	$73,564	$74,247

Section I – Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Modified, except for TAACCCT
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 §.510(a)	Yes

Identification of major programs:

Name of Federal Program	CFDA Number
Student Financial Aid Cluster	84.007, 84.033 84.063, 84.268
TAACCCT Grant	17.282

Dollar threshold used to distinguish between type A and type B programs:	$300,000**
Auditee qualified as low-risk auditee?	No

**Due to the biennial single audit, the lower threshold from OMB Circular A-133 was used for selection of major programs.

Section II – Financial Statement Findings

2016-A Audit Adjustments and Year-End Closing procedures
Significant Deficiency in internal control

Criteria:
The College is responsible for establishing and implementing a system of internal control designed to record all year-end adjusting entries necessary to close the fiscal year in a timely and efficient manner to allow those charged with governance the ability to evaluate the financial condition of the College.

Condition:
During the course of our audit engagement, we proposed audit adjustments, which if not recorded, could have resulted in a misstatement of the College's financial statements. In addition, year-end closing procedures were continuing to be performed during and after audit fieldwork, which was 5 months after year-end.

Cause:
The internal controls and procedures currently in place were not sufficient to identify and record all adjusting and closing entries necessary for the preparation of the financial statements and to close the fiscal year in a timely manner.

Effect:
Misstatements to the financial statements were undetected by the College and not corrected in a timely manner which may result in the use by management of inaccurate financial information. In addition, the College does not have procedures or controls in place to ensure year-end close procedures are performed timely. As a result, the financial information reported to the board of trustees had the potential for misstatements that went undetected for several months after year end.

Recommendation:
Procedures should be implemented which include the review of significant account balances and financial close processes to ensure that accurate financial information is included in the financial statements of the College and reported to governance timely.

Views of Responsible Officials:
Dawson Community College agrees with the auditor's finding. The majority of closing entries were completed in time for audit fieldwork, however many were not finalized until five months after year end closing. The procedures were in place for the year end closing to be accomplished in a timelier manner, but were not executed as turnover during the year and lack of appropriate personnel hindered year end closing efforts. In an effort to address this shortcoming, the College has reached out to an independent accounting firm (Anderson ZurMuehlen & Co. P.C.) to assist the College in performing monthly reconciliations and year-end closeout for FY2017. The engagement letter is currently being drafted and work is expected to begin before the end of February 2017. In addition, the College continues to recruit for a full time Controller, with the intent this position will oversee all monthly and year-end reconciliations. In the meantime, the agreement with Anderson ZurMuehlen & Co. P.C. will remain in place until College personnel are sufficiently staffed and trained in completing regular monthly and year-end processes.

Section III – Federal Award Findings and Questioned Costs

2016-001 - Direct Programs – Department of Education
CFDA# 84.063, 84.007, 84.268, 84.033
Student Financial Aid Cluster

Eligibility
Special Tests and Provisions: Verification
Special Tests and Provisions: Disbursements To or On Behalf of Students

Material Noncompliance and Material Weakness in Internal Control

Criteria:
34 CFR Sections 690.61 states an institution must disburse a Federal Pell Grant to an eligible student who is otherwise qualified to receive that disbursement and electronically transmit Federal Pell Grant disbursement data.

34 CFR Section 668.56 states that when a student is selected for verification under 34 CFR 668.54(a)(1)-(4), the Institution must verify the acceptable documentation as described in 34 CFR 668.57 and verify or update the information used to determine the student's expected family contribution.

34 CFR Section 668.58(b) states that when an institution chooses to make a disbursement under 34 CFR (a)(2)(i)(B) and it is discovered as a result of verification to the extent that the overpayment is not recovered through reducing subsequent disbursement in the award year or from the student and must recover the overpayment in accordance with 668.61(a).

Condition:
Eide Bailly identified two instances where an updated Institutional Student Information Report (ISIR) was not reviewed and verification not completed to determine a change in expected family contribution (EFC) which would have resulted in one student receiving additional Pell and the other being over awarded Pell.

Cause:
A break down in control where the financial aid department did not review updated ISIRs that were flagged for verification once initial packaging for the semester had been completed.

Effect:
One student was due additional Pell award and another student was over awarded Pell.

Questioned Costs:
None Reported

Context/Sampling:
A nonstatistical sample of 35 participants for two awards years out of 174 participants across two award years were selected for testing.

Repeat Finding from Prior Years:
No

Recommendation:
The college should implement a system where one financial aid staff receives ISIRs, including updated ISIRs, and updates the award package accordingly. A different financial aid staff should review the updated packaging and ISIR for accuracy.

Views of Responsible Officials:
Dawson Community College acknowledges that during a personnel change in the financial aid department, several steps may have been missed during the ISIR eligibility and verification process. During FY2016, the Financial Aid department struggled to adjust to a new director, who replaced a retiring financial aid veteran in June 2015 after 25 plus years at DCC. Dawson Community College registered an issue mid fiscal year after realizing the replacement director was being challenged by the many rules and regulations of financial aid. An appropriate change in personnel occurred in June 2016 with a new director with over eight years' financial aid experience taking over. The new Director has done a yeomen's job to reconcile financial aid and resolve discrepancies. The situation causing the condition above has been recognized and addressed by a change in personnel and creating a new process to resolve ISIR eligibility and verification discrepancies. A description of the new process is outlined below:

All records are imported and downloaded from the Central Processor. When a new ISIR transaction is received by Dawson Community College, a baseline Banner Discrepancy Report is run and reviewed by the Director. This report details all changes of the new record to the existing current record (ISIR) in Banner. The Director reviews all discrepant data. If information has changed, immediate on-line calculations are run via the immediate process form (ROAIMMP) to update the current record to ensure proper verification and disbursement.

If a record is selected for verification, the verification documents will be reviewed and once verified, the verification complete flag will be updated. If verification is not complete, the Banner system will not allow aid to be disbursed.

If a student record has already been processed prior to the discrepant ISIR being loaded into Banner, the necessary changes will be updated (unlocking the record on the form RNAOV17 to allow the new ISIR to be loaded). At this time, additional documentation, if needed, will be requested from the student to submit before any further eligibility of financial aid can be determined. (This tracking process is run via the immediate process form ROAIMMP.) All current and future disbursements are held until discrepant information is resolved. The student is notified via MyInfo and a Tracking letter is sent to the student requesting the additional documentation.

Once the student submits documentation to support the new data, the Director reviews and adjusts the student's record and awards accordingly. No financial aid is disbursed while discrepant information exists. The new information, if accepted, will be verified and the student's financial aid award will be adjusted accordingly.

Dawson Community College's goal is to continue complying with rules and regulations required to accurately award and distribute financial aid. We are committed to improving our efforts to provide accurate, reliable financial aid information and awards to students.

2016-002 - Direct Programs – Department of Education
CFDA# 84.042A
TRIO Student Support Services
Cash Management
Significant Deficiency in Internal Control

Criteria:
The College is responsible for establishing and implementing internal control procedures to reconcile expenditures to ensure timely drawdown of funds and revenue recognition of federal awards are occurring.

Condition:
During our testing of the Schedule of Expenditures and Federal Awards, we noted the drawdown of funds and recognition of revenues related to federal programs that should have been recognized in prior periods. Upon closeout of the grant, the additional funds were drawn on and recognized as revenue in the current fiscal year.

Cause:
The internal controls and procedures currently in place were not sufficient to identify and record the entries necessary for revenue recognition in prior periods. The College has not historically performed consistent and timely reconciliation of expenditures and drawdowns.

Effect:
The College is paying for expenditures upfront and not being reimbursed in a timely manner creating the potential for a strain on the College's cash flow. Additionally, revenue related to federal programs in the current fiscal year are overstated for prior period revenue.

Questioned Cots:
None reported

Context/Sampling:
Not Applicable

Repeat Finding from Prior Year:
No

Recommendation:
The College should implement a control that requires reconciliation of expenditures for federal award programs and drawdowns that occur consistently throughout the year to ensure that revenue recognition is occurring in the appropriate period.

Views of Responsible Officials:
Dawson Community College agrees with the auditor's finding. The College is no longer involved in the TRIO grant, however, has implemented reconciliation processes with personnel working on other federal funding. In addition, this process has been verbally discussed with Anderson ZurMuehlen & Co. P.C and will be included in monthly and year-end services they will be providing. Again, it is hoped that once a full-time Controller is hired, these processes will occur internally. Until that time, the College will use the services of the external accounting firm for as long as necessary.

Despite the reductions in force implemented in FY2016 not directly affecting the Business Office, IT, Financial Aid or Human Resources, the high tensions and resulting changes were difficult to work through. Personnel changes not related to the reduction in force, combined with the stress of the situation created challenges for all departments throughout the year. The College recognizes the fact and as a result has reached out to the independent accounting firm to assist business personnel, both those in reorganized positions and new employees, until they are trained properly and are better able to complete these processes.

The College remains committed to addressing these findings and improving procedures to allow for accurate, timely information to be provided to our internal and external stakeholders.