

DIXIE STATE UNIVERSITY
A Component Unit of the State of Utah

Annual Financial Report
For the Year Ended June 30, 2014

Report No. 14-40



OFFICE OF THE
UTAH STATE AUDITOR

DIXIE STATE UNIVERSITY

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For the Year Ended June 30, 2014

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AUDIT LEADERSHIP:

Hollie Andrus, CPA, Audit Director
Jason Allen, CPA, CFE, Audit Supervisor
Ariane Gibson, CPA, Audit Senior

DIXIE STATE UNIVERSITY

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014

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OFFICE OF THE
UTAH STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Trustees, Audit Committee
and
Dr. Richard B. Williams, President
Dixie State University

Report on the Financial Statements

We have audited the accompanying financial statements of Dixie State University (University) and its discretely presented component unit foundation, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, as listed in the table of contents. The University is a component unit of the State of Utah.

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 Dixie College Foundation (Foundation), a discretely presented component unit foundation. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its Foundation, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year 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 on pages 3–11 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2015 on our consideration of the University'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 University's internal control over financial reporting and compliance.


Office of the Utah State Auditor
March 25, 2015

DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

As management of Dixie State University (the University), we offer readers of the University's financial statements this narrative overview and analysis of the financial activities of the University for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented within this discussion and analysis in conjunction with the additional information that is furnished in our basic financial statements (including the notes to the financial statements).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the University's basic financial statements. The University's basic financial statements consist of four components: 1) the Statement of Net Position, 2) the Statement of Revenues, Expenses, and Changes in Net Position, 3) the Statement of Cash Flows, and 4) the Notes to the Financial Statements. This discussion and analysis focuses on the University's primary institution operations. The University's discretely presented component unit, the Dixie College Foundation, issues separately audited financial statements which can be obtained directly from the Foundation's administrative office.

Statement of Net Position: The Statement of Net Position provides information on the University's assets and liabilities at the end of the fiscal year, with the difference between the two reported as net position. The information provided in the Statement of Net Position, along with disclosures and other information contained in the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and the accompanying notes, helps users evaluate, among other things, the University's liquidity and its ability to meet its obligations. It is one way of measuring the University's financial health or position. Over time, increases or decreases in the University's net position are an indicator of whether its financial condition is improving or deteriorating. Other non-financial factors are also important to consider, including student enrollment and the condition of the campus buildings.

DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

The following table summarizes the University's assets, liabilities, and net position at June 30, 2013 and 2014:

Condensed Statement of Net Position

	<u>Year Ended June 30, 2013</u> *	<u>Year Ended June 30, 2014</u>	<u>Amount of Increase (Decrease)</u>
Assets			
Current Assets	\$ 24,617,646	\$ 24,075,311	\$ (542,335)
Capital Assets, Net	128,856,315	127,936,915	(919,400)
Other Assets	11,936,977	13,982,269	2,045,292
Total Assets	<u>165,410,938</u>	<u>165,994,495</u>	<u>583,557</u>
Liabilities			
Current Liabilities	5,594,407	5,911,115	316,708
Noncurrent Liabilities	9,149,877	9,394,283	244,406
Total Liabilities	<u>14,744,284</u>	<u>15,305,398</u>	<u>561,114</u>
Net Position			
Net Investment in Capital Assets	119,311,700	118,637,285	(674,415)
Restricted - Nonexpendable	9,201,236	11,192,853	1,991,617
Restricted - Expendable	7,660,035	5,462,508	(2,197,527)
Unrestricted	14,493,683	15,396,451	902,768
Total Net Position	<u>\$ 150,666,654</u>	<u>\$ 150,689,097</u>	<u>\$ 22,443</u>

* The 2013 amounts presented here have not been changed for the prior period adjustment discussed in Note 1.

The University's net position experienced a slight increase for fiscal year 2014. The increase in other assets was mainly due to a large donation to the University. The decrease in capital assets is the net effect of annual depreciation expense coupled with minimal capital asset acquisitions. The increase in liabilities was mainly due to additional debt incurred for a new bus and the acceptance of four employees into the early retiree program. Changes in net position reflect the results of these charges.

Statement of Revenues, Expenses, and Changes in Net Position: The Statement of Revenues, Expenses, and Changes in Net Position provides information to users about the operating performance of the University and the effects of nonoperating transactions on net position. The information in this statement, together with information in the Statement of Net Position, the Statement of Cash Flows, and the accompanying notes, should assist users of the University's financial statements in evaluating the University's performance during the fiscal year. These statements will also show how well management has discharged their stewardship responsibilities and other aspects of their duties.

DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

The following table summarizes the University's revenues, expenses, and changes in net position for the years ended June 30, 2013 and 2014:

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

	<u>Year Ended June 30, 2013</u> *	<u>Year Ended June 30, 2014</u>	<u>Amount of Increase (Decrease)</u>
Operating Income			
Operating Revenues	\$ 37,622,723	\$ 38,855,429	\$ 1,232,706
Operating Expenses	85,456,795	88,775,368	3,318,573
Operating Income (Loss)	(47,834,072)	(49,919,939)	(2,085,867)
Nonoperating Revenues			
Nonoperating Revenues	48,319,595	48,008,041	(311,554)
Nonoperating Expenses	660,099	682,693	22,594
Net Nonoperating Revenues	47,659,496	47,325,348	(334,148)
Income (Loss) Before Other Revenues	(174,576)	(2,594,591)	(2,420,015)
Other Revenues and Expenses	4,910,755	2,612,465	(2,298,290)
Increase (Decrease) in Net Position	4,736,179	17,874	(4,718,305)
Net Position – Beginning of Year, adjusted	145,930,475	150,671,223	4,740,748
Net Position – End of Year	<u>\$ 150,666,654</u>	<u>\$ 150,689,097</u>	<u>\$ 22,443</u>

* The 2013 amounts presented here have not been changed for the prior period adjustment discussed in Note 1.

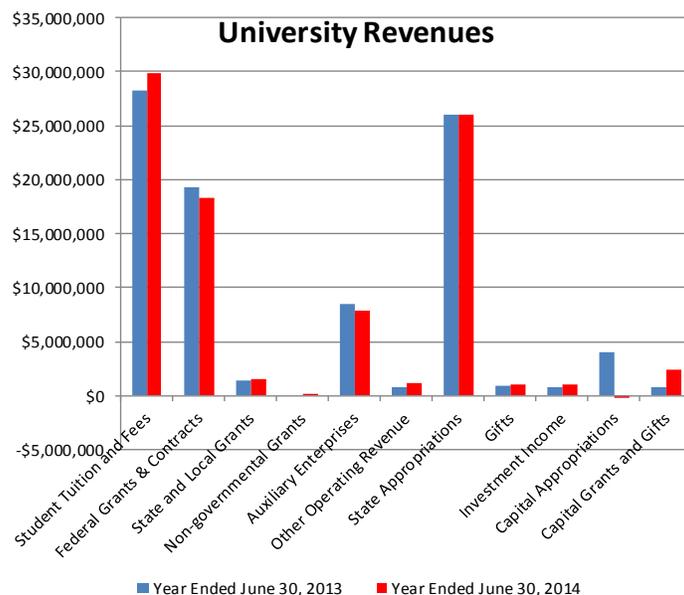
For the year ended June 30, 2014, the University experienced a net operating loss as shown above. In a normal year, an operating loss would be expected since the University receives a majority of its funding from nonoperating revenues. Appropriations, along with grants, investment income, and financial gifts from donors, are classified on the financial statements as nonoperating revenues. During this last fiscal year, the net nonoperating revenues were not sufficient to cover the operating costs of the University. Operating revenues increased overall when compared to the prior year as shown above. This increase is primarily attributable to increases in Student Tuition and Fees.

DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

Revenues: The following table and graph summarize the University's revenues for the years ended June 30, 2013 and 2014:

	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2014</u>	<u>Percent of Total</u>	<u>Amount of Increase (Decrease)</u>	<u>Percentage Increase (Decrease)</u>
Operating Revenues					
Student Tuition and Fees, net	\$ 28,231,291	\$ 29,905,185	76.97%	\$ 1,673,894	5.93%
Grants and Contracts	84,055	119,999	0.31%	35,944	42.76%
Auxiliary Enterprises, net	8,523,855	7,865,887	20.24%	(657,968)	(7.72%)
Other Operating Revenues	783,522	964,358	2.48%	180,836	23.08%
Total Operating Revenues	<u>\$ 37,622,723</u>	<u>\$ 38,855,429</u>	<u>100.00%</u>	<u>\$ 1,232,706</u>	<u>3.28%</u>
Nonoperating Revenues					
State Appropriations	\$ 25,963,029	\$ 26,085,486	54.34%	\$ 122,457	0.47%
Federal Grants	19,190,654	18,184,235	37.88%	(1,006,419)	(5.24%)
State and Local Grants	1,418,273	1,542,813	3.21%	124,540	8.78%
Private Grants	-	15,000	0.03%	15,000	100.00%
Gifts	952,888	1,041,041	2.17%	88,153	9.25%
Investment Income	794,751	1,139,466	2.37%	344,715	43.37%
Total Nonoperating Revenues	<u>\$ 48,319,595</u>	<u>\$ 48,008,041</u>	<u>100.00%</u>	<u>\$ (311,554)</u>	<u>(0.64%)</u>
Other Revenues					
Capital Appropriations	\$ 4,066,391	\$ 29,865	1.14%	\$ (4,036,526)	(99.27%)
Capital Grants and Gifts	637,218	1,330,618	50.93%	693,400	108.82%
Additions to Permanent Endowments	207,146	1,251,982	47.92%	1,044,836	504.40%
Total Other Revenues	<u>\$ 4,910,755</u>	<u>\$ 2,612,465</u>	<u>100.00%</u>	<u>\$ (2,298,290)</u>	<u>(46.80%)</u>



Nonoperating and other revenues fluctuate from year to year based on the amount appropriated by the State Legislature for ongoing needs and capital projects at the University. In total, nonoperating revenues were slightly lower for fiscal year 2014 than the previous fiscal year. These revenues also fluctuate from year to year because of the inconsistent pattern of investment income, gifts given to the University for Scholarships, and capital projects. Federal grants decreased due to a Pell Grant funding cut. The decrease in capital appropriations is a natural occurrence following the completion of the Holland Centennial

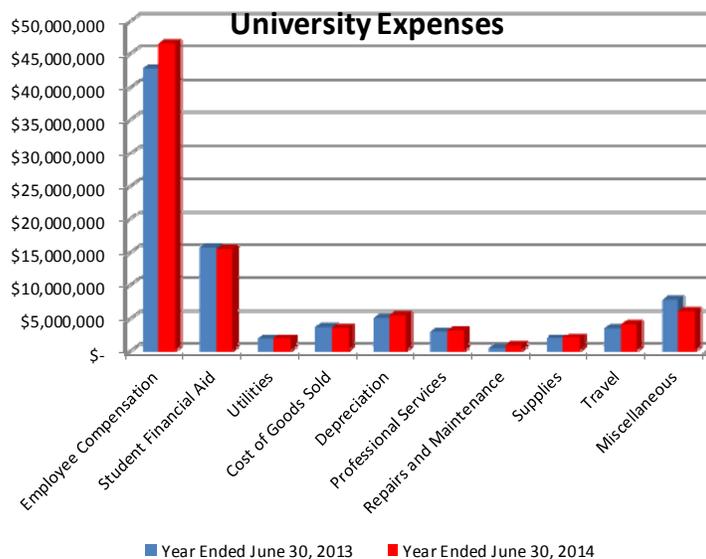
DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

Commons Building the prior fiscal year. The large increase in endowments reflects the realization of some substantial endowment donations. Investment increases reflect overall improved market returns. The increase in capital grants and gifts is due to the donation of campus internal streets from the City of St. George.

Expenses: The following table and graph summarize the University's operating expenses for the years ended June 30, 2013 and 2014:

	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2014</u>	<u>Percent of Total</u>	<u>Amount of Increase (Decrease)</u>	<u>Percentage Increase (Decrease)</u>
Operating Expenses					
Employee Compensation	\$ 42,740,329	\$ 46,422,848	52.29%	\$ 3,682,519	8.62%
Student Financial Aid	15,669,829	15,424,576	17.37%	(245,253)	(1.57%)
Utilities	1,794,941	1,847,638	2.08%	52,697	2.94%
Cost of Goods Sold	3,700,939	3,546,182	3.99%	(154,757)	(4.18%)
Depreciation	5,033,538	5,408,611	6.09%	375,073	7.45%
Professional Services	3,024,988	3,188,869	3.59%	163,881	5.42%
Repairs and Maintenance	372,143	776,766	0.87%	404,623	108.73%
Supplies	1,884,442	2,019,599	2.27%	135,157	7.17%
Travel	3,497,356	4,124,859	4.65%	627,503	17.94%
Miscellaneous	7,738,290	6,015,420	6.78%	(1,722,870)	(22.26%)
Total Operating Expenses	<u>85,456,795</u>	<u>88,775,368</u>	<u>100.00%</u>	<u>3,318,573</u>	<u>3.88%</u>



DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

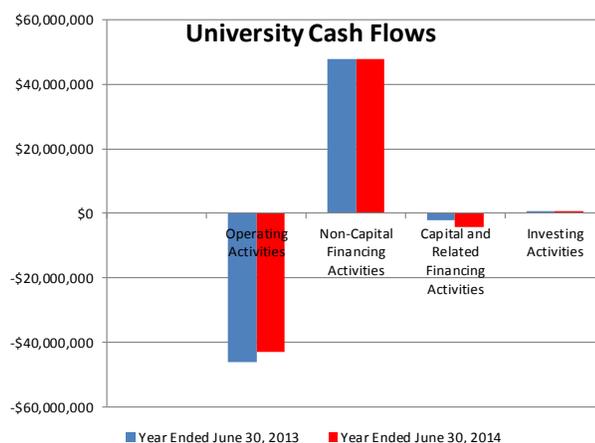
Operating expenses increased overall when compared to the prior year. As the chart above shows, the majority of this increase is a reflection of new hires in faculty and staff positions and salary and benefit increases to existing faculty and staff. The major percentage increase to repairs and maintenance reflects expenditures for re-roofing the Cox Auditorium, roadway improvements, and repairs to Hansen Stadium.

Statement of Cash Flows: The Statement of Cash Flows provides information about the cash receipts and cash payments of the University during the fiscal year. When used with related disclosures and information in other financial statements, the Statement of Cash Flows should help financial statement report users assess the University's ability to generate future net cash flows and its ability to meet its obligations as they come due. The Statement of Cash Flows will also provide reasons for differences between operating income and the associated cash receipts/payments, as well as the effects on the University's financial position for cash and non-cash investing, capital, and financing transactions during the fiscal year.

The following table and graph summarize the University's cash flows for the years ended June 30, 2013 and 2014:

Condensed Statement of Cash Flows

	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2014</u>	<u>Amount of Increase (Decrease)</u>	<u>Percentage of Change in Inflows (Outflows)</u>
Cash Provided (Used) by:				
Operating Activities	\$(46,108,127)	\$(43,459,409)	\$ 2,648,718	(5.74%)
Noncapital Financing Activities	47,947,079	47,981,068	33,989	0.07%
Capital and Related Financing Activities	(2,305,670)	(4,059,345)	(1,753,675)	76.06%
Investing Activities	639,790	453,603	(186,187)	(29.10%)
Net Increase (Decrease) in Cash and Cash Equivalents	173,072	915,917	742,845	429.21%
Cash and Cash Equivalents – Beginning of Year	23,018,294	23,191,366	173,072	0.75%
Cash and Cash Equivalents – End of Year	\$ 23,191,366	\$ 24,107,283	\$ 915,917	3.95%



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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

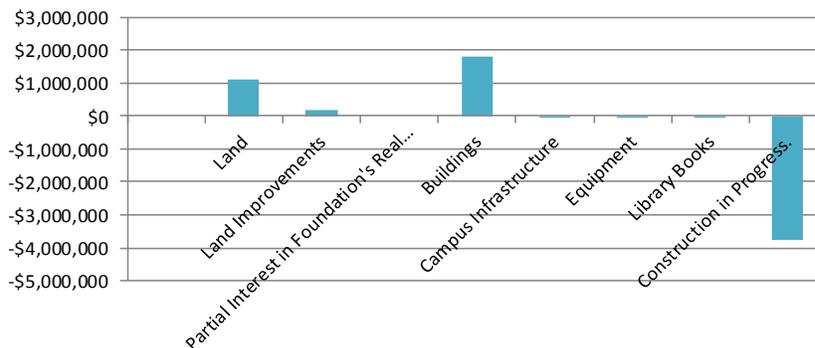
Cash outflows for Operating Activities decreased when compared to the prior year as a result of tuition and enrollment increases. Capital and Related Financing Activities' cash outflows increased in fiscal year 2014 as the University purchased more capital assets. As the University continued to diversify its investment portfolio, it received fewer dividends and interest, reducing the cash inflows from Investing Activities.

Capital Assets and Debt Administration

Capital Assets: Investment in capital assets includes land, partial interest in Foundation's real property, land improvements, buildings, equipment, library books, and construction in progress. The major additions are in buildings and land and are the result of the completion of the clock tower, the Snow Service Center remodel, and road donations from the City of St. George. Additional information about the University's capital assets can be found in Note 5 to the financial statements.

The following table and graph summarize the University's capital assets at June 30, 2013 and 2014:

Capital Assets, Net	Year Ended June 30, 2013	Year Ended June 30, 2014	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Land	\$ 11,459,487	\$ 12,558,315	\$ 1,098,828	9.59%
Land Improvements	5,856,233	6,033,642	177,409	3.03%
Partial Interest in Foundation's Real Property	422,785	422,785	-	0.00%
Buildings	97,257,279	99,036,965	1,779,686	1.83%
Building Improvements	3,380,591	3,311,752	(68,839)	(2.04%)
Equipment	5,330,232	5,284,166	(46,066)	(0.86%)
Library Books	1,142,738	1,065,286	(77,452)	(6.78%)
Construction in Progress	4,006,970	224,004	(3,782,966)	(94.41%)
Total Capital Assets, Net	\$128,856,315	\$ 127,936,915	\$ (919,400)	(0.71%)



Changes in Capital Assets

■ Amount of Increase (Decrease)

DIXIE STATE UNIVERSITY

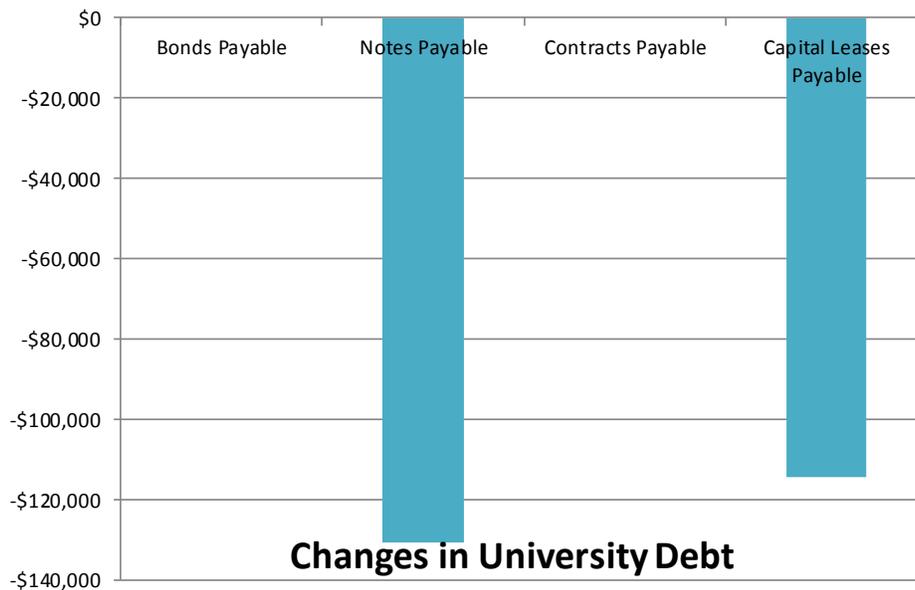
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

Notes and Capital Leases:

The University debt decreased for fiscal year 2014. This was due to normal activity from the payment on the loans offset by a new capital lease. Additional information related to the University's liabilities is presented in Notes 6, 7, and 8 to the financial statements.

The following table and graph summarize outstanding University debt at June 30, 2013 and 2014:

	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2014</u>	<u>Amount of Increase (Decrease)</u>	<u>Percentage of Increase (Decrease)</u>
University Debt				
Notes Payable	\$ 1,662,771	\$ 1,532,074	\$ (130,697)	(7.86%)
Capital Leases Payable	7,881,844	7,767,556	(114,288)	(1.45%)
Total Debt	<u>\$ 9,544,615</u>	<u>\$ 9,299,630</u>	<u>\$ (244,985)</u>	<u>(2.57%)</u>



Economic Outlook

Utah's economy is showing signs of stabilization. While employment growth was mixed, trends point towards moderate economic recovery. The University has grown by over 60% since fiscal year 2008. This growth has fueled the expansion of the University degree offerings.

Despite these issues, the growth in the St. George area will continue to propel growth at the University. Currently management has a positive outlook of their current strategic plans for future growth.

DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

Requests for Information

This financial report is designed to provide a general overview of the University's finances. The report is for all those with an interest in the University's finances and to show the University's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Dixie State University, Business Services, 225 South 700 East, Saint George, Utah 84770.

DIXIE STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Institution	Component Unit Foundation
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	\$ 21,046,312	\$ 1,939,486
Investments (Note 2)	-	3,898,249
Accounts and Notes Receivable, Net (Note 3)	1,212,066	11,144
Accounts Receivable – Primary Government/Related Parties (Note 3)	534,998	42,724
Inventories (Note 4)	899,416	-
Student Loans Receivable, Net (Note 3)	375,357	-
Prepaid Expenses	7,162	-
Total Current Assets	24,075,311	5,891,603
Noncurrent Assets		
Restricted Cash and Cash Equivalents (Note 2)	3,060,971	233,175
Restricted Short-term Investments	154,937	-
Investments (Note 2)	9,523,946	9,085,146
Accounts and Notes Receivable, Net (Note 3)	290,979	896,124
Student Loans Receivable, Net (Note 3)	951,436	-
Investments in Real Estate	-	100,000
Capital Assets, Net (Note 5)	127,936,915	5,066,190
Total Noncurrent Assets	141,919,184	15,380,635
Total Assets	165,994,495	21,272,238
LIABILITIES		
Current Liabilities		
Accounts Payable (Note 8)	1,541,975	11,860
Accounts Payable – Primary Government/Related Parties	1,055,991	-
Accrued Liabilities (Note 8)	390,847	-
Compensated Absences and Termination Benefits (Notes 8 through 10)	995,851	-
Deposits	479,992	-
Unearned Revenue	637,570	-
Notes, Contracts, and Capital Leases Payable (Notes 6 and 8)	808,889	447,937
Total Current Liabilities	5,911,115	459,797
Noncurrent Liabilities		
Compensated Absences and Termination Benefits (Notes 8 through 10)	903,542	-
Notes, Contracts, and Capital Leases Payable (Notes 6 and 8)	8,490,741	6,469,979
Total Noncurrent Liabilities	9,394,283	6,469,979
Total Liabilities	15,305,398	6,929,776
NET POSITION		
Net Investment in Capital Assets	118,637,285	-
Restricted For		
Nonexpendable		
Scholarships and Fellowships	9,654,155	
Other	1,538,698	-
Foundation	-	9,085,146
Expendable		
Scholarships and Fellowships	1,938,802	
Loans	1,379,766	-
Capital Projects	234,732	-
Debt Service	414,640	-
Other	1,494,568	-
Foundation	-	5,107,260
Unrestricted	15,396,451	150,056
Total Net Position	\$ 150,689,097	\$ 14,342,462

The accompanying notes are an integral part of these financial statements.

DIXIE STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Primary Institution</u>	<u>Component Unit Foundation</u>
OPERATING REVENUES		
Student Tuition and Fees, net (Note 1)	\$ 29,905,185	\$ -
Federal Grants and Contracts	80,601	-
Auxiliary Enterprises, net (Note 1)	7,865,887	555,739
State and Local Grants and Contracts	25,348	-
Nongovernmental Grants and Contracts	14,050	-
Foundation Contributions Received	-	636,499
Other Operating Revenues	964,358	-
Total Operating Revenues	<u>38,855,429</u>	<u>1,192,238</u>
OPERATING EXPENSES		
Salaries and Wages	33,838,975	-
Employee Benefits	12,583,873	-
Student Financial Aid	15,424,576	-
Donation to the College	-	742,387
Utilities	1,847,638	-
Cost of Goods Sold	3,546,182	-
Depreciation	5,408,611	-
Other Operating Expenses	16,125,513	745,692
Total Operating Expenses	<u>88,775,368</u>	<u>1,488,079</u>
Operating Income (Loss)	<u>(49,919,939)</u>	<u>(295,841)</u>
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	26,085,486	-
Federal Grants	18,184,235	-
State Grants	1,502,813	-
Local Grants	40,000	-
Private Grants	15,000	-
Gifts	1,041,041	-
Investment Income	1,139,466	2,059,121
Interest on Capital Asset Related Debt	(405,854)	-
Other Nonoperating Revenues (Expenses)	(276,839)	505,546
Net Nonoperating Revenues (Expenses)	<u>47,325,348</u>	<u>2,564,667</u>
Income (Loss) Before Other Revenues	<u>(2,594,591)</u>	<u>2,268,826</u>
OTHER REVENUES (EXPENSES)		
Capital Appropriations	29,865	-
Capital Grants and Gifts	1,330,618	-
Additions to Permanent Endowments	1,251,982	559
Total Other Revenues and Expenses	<u>2,612,465</u>	<u>559</u>
Increase (Decrease) in Net Position	17,874	2,269,385
Net Position – Beginning of Year, adjusted (Note 1)	<u>150,671,223</u>	<u>12,073,077</u>
Net Position – End of Year	<u><u>\$ 150,689,097</u></u>	<u><u>\$ 14,342,462</u></u>

The accompanying notes are an integral part of these financial statements.

DIXIE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	Primary Institution
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Tuition and Fees	\$ 29,779,661
Receipts from Grants and Contracts	119,999
Receipts from Auxiliary Enterprises	8,846,522
Payments for Compensation and Benefits	(46,113,971)
Payments to Vendors and Suppliers	(20,724,168)
Payments for Scholarships and Fellowships	(15,671,401)
Receipt of Student Loan Proceeds	246,825
Loans Issued to Students	(243,371)
Collection of Loans to Students	300,495
Net Cash Provided (Used) by Operating Activities	(43,459,409)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	26,042,486
Receipts from State Grants	1,502,813
Receipts from Federal Student Financial Aid	18,184,235
Receipts from Gifts and Endowments	2,257,178
Receipts from William D. Ford National Direct Student Loan	22,538,983
Payments to William D. Ford National Direct Student Loan	(22,535,230)
Other Receipts (Payments)	(9,397)
Net Cash Provided (Used) by Noncapital Financing Activities	47,981,068
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from Capital Grants	594,608
Proceeds from Sale of Capital Assets	51,456
Acquisition and Construction of Capital Assets	(3,546,713)
Principal Paid on Capital Debt and Leases	(743,485)
Interest Paid on Capital Debt and Leases	(415,211)
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,059,345)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	639,911
Investment Income	200,717
Purchase of Investments and Related Fees	(387,025)
Net Cash Provided (Used) by Investing Activities	453,603
Net Increase (Decrease) in Cash and Cash Equivalents	915,917
Cash and Cash Equivalents – Beginning of Year	23,191,366
Cash and Cash Equivalents – End of Year	\$ 24,107,283

(continued)

DIXIE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

(continued)

	<u>Primary Institution</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (49,919,939)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	5,408,611
Provision for Uncollectible Loans and Writeoffs	323,771
Changes in Assets and Liabilities:	
Receivables, Net	(147,192)
Inventories	165,729
Prepaid Items	80
Notes Receivable, Net	57,124
Accounts Payable and Accrued Liabilities	(394,679)
Accounts Payable – Primary Government/Related Parties	340,545
Unearned Revenue	37,945
Compensated Absences	668,596
Total Adjustments	<u>6,460,530</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (43,459,409)</u>
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Completed Construction Project Transferred from the State of Utah	\$ 96,075
Assets Acquired Through a Capital Lease	498,500
Assets Acquired Through a Gift	713,990
Change in Fair Value of Investments	(714,807)
Capital Asset Write-Offs	(99,990)
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 493,768</u>

The accompanying notes are an integral part of these financial statements.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Dixie State University (University), located in Saint George, Utah, was established in 1911 as Saint George Academy and became known as Dixie Academy. Originally operated by The Church of Jesus Christ of Latter-day Saints, the College was turned over to the State of Utah in 1933. It was known officially as Dixie Junior College until 1971 when the Utah State Legislature changed the name to Dixie College. In January 2000, the name was changed to Dixie State College when it became eligible to offer four-year degree programs. In February of 2013, the name was changed again to Dixie State University. The University is a component unit of the State of Utah and receives state appropriations each year.

The University offers baccalaureate programs in selected high demand areas and in core or foundational areas consistent with four-year universities. It also partners with other institutions in the Utah System of Higher Education in ensuring that quality graduate programs are available to Washington County residents.

The University is committed to accountability and creativity in delivering quality higher educational opportunities within its service area. The University is a cooperative and conscientious partner with other public and higher education institutions, responsibly using public funds to meet the state's needs.

Reporting Entity

The University has included in the financial statements all restricted and unrestricted funds, including all auxiliary enterprises. The University has considered all potential component units for which the University is financially accountable and other organizations for which the nature and significance of their relationship with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete.

The Dixie College Foundation (Foundation), a discretely-presented component unit, is a separate but affiliated self-sustaining not-for-profit organization. Because the Foundation was established to receive gifts almost entirely for the benefit of the University, the Foundation is included in the University's audited financial statements under the heading "Component Unit Foundation." Independent auditors have audited the Foundation and a separate report has been issued thereon and is available at the Foundation's administrative office. The Foundation is not subject to income taxes under Section 501(c)(3) of the Internal Revenue Code.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The Foundation follows FASB pronouncements and has adopted Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the University's financial report.

Basis of Presentation

Cash and Investments – Cash from all funds is deposited into one account except when legal requirements dictate the use of separate accounts. University and Foundation investments are carried at fair value. The University distributes earnings from pooled investments based on the average monthly investment of each participating account. Foundation real estate investments consist of donations that are reported at the lower of current fair value or the fair value at the time of donation. The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. This includes repurchase agreements and the Utah Public Treasurers' Investment Fund for the University. For the Foundation, cash equivalents include certificates of deposit and money market funds held by equity managers.

Accounts Receivable – Accounts receivable consist of tuition and fee charges to students and for auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the federal, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories – The value of the University bookstore inventory is recorded at average cost using the retail inventory method. All other inventory values are determined by using the lower of cost (first-in, first-out) or market.

Prepaid Expenses – Prepaid expenses consist of products or services that have been paid for and not received.

Capital Assets – Property, plant, and equipment are stated at cost as of the date of acquisition or fair value at date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$3,000 or more and an estimated useful life greater than one year. Buildings costing \$20,000 or more are capitalized, as are building improvements costing \$20,000 or more that extend the useful life and land improvements costing \$20,000 or more. The capitalization of other assets is determined at acquisition based on guidelines developed by the Utah State Division of

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Finance, as adopted by the Utah State Board of Regents. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation on property, plant, and equipment is recorded based on the depreciation conventions adopted by the State of Utah over the estimated useful lives of the assets: 40 years for buildings, up to 30 years for building improvements, 5 to 20 years for land improvements, 20 years for library books, and 3 to 20 years for equipment.

Accrued Compensated Absences – Employees' compensated absences are accrued when earned. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statement of Net Position and as a component of salaries and benefit expenses in the Statement of Revenues, Expenses, and Changes in Net Position. University policy with regard to vacation and sick leave is that (1) unused vacation may be accrued to the extent of thirty days; and (2) sick leave may be accumulated at the rate of one day per month. However, regardless of the accumulated amount, when an employee terminates, there is no reimbursement for unused sick leave. Thus, no liability exists for sick leave earned in prior periods. Sick leave, when taken, is paid at the employee's current rate of pay in the sense that the employee's salary continues as if at work.

Unearned Revenue – Unearned revenue consists of amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period.

Noncurrent Liabilities – Noncurrent liabilities include (1) principal amounts of notes payable and capital lease obligations with contractual maturities greater than one year; and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

Gifts – The University follows the practice of recording gifts when all eligibility requirements imposed by the provider have been met.

Net Position – The University's net position is classified as follows:

Net investment in capital assets – This represents the University's total investment in capital assets, net of outstanding debt obligations related to capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position, nonexpendable – Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Restricted net position, expendable – Restricted expendable net position includes resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the policy of the University is to apply the expense first towards allowed and appropriate restricted resources and then towards unrestricted resources.

Classification of Revenues and Expenses – Operating activities include all revenues and expenses that have the characteristics of exchange transactions. A large portion of the University's recurring revenue is defined as nonoperating by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*.

Operating revenues include student tuition and fees, grants and contracts, and revenue from auxiliary enterprises. Nonoperating revenues include state appropriations, grants, gifts, and investment income. Operating expenses include salaries, wages, benefits, student aid, supplies, utilities, repairs and maintenance, etc. Nonoperating expenses are expenses that do not meet the definition of operating expenses or other expenses. Primarily, nonoperating expenses include interest payments on debt obligations.

Scholarship Allowances – Tuition, fees, and certain other student revenues are reported net of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance of \$9,391,828 against student tuition and fees and an allowance of \$59,424 against auxiliary enterprises revenue.

Tax Status – As a State institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code; however, income generated from activities unrelated to the University's

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B).

Adjustment to Beginning Net Position – In fiscal year 2013, the University recorded \$170,431 of capital appropriations related to the completion of the Holland Centennial Commons Building. In fiscal year 2014, the University determined that this money should not have been recognized as 2013 capital appropriations because it relates to the University's portion of construction costs. Also, the University identified \$175,000 received in fiscal year 2014 related to services provided by the University during fiscal year 2013 that had not been previously recognized as revenue. To correct these entries, the University increased the beginning net position by \$4,569, from \$150,666,654 to \$150,671,223.

NOTE 2. DEPOSITS AND INVESTMENTS

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted under the authority of the State of Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) that relate to the deposit and investment of public funds.

Except for endowment funds, the University follows the requirements of the Money Management Act in handling its depository and investment transactions. The Act requires the depositing of University funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Money Management Council.

For endowment funds, the entity follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) (*Utah Code*, Title 51, Chapter 8) and State Board of Regents Rule 541, *Management and Reporting of Institutional Investments* (Rule 541).

Deposits – University

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a formal deposit policy for custodial credit risk. As of June 30, 2014, \$1,689,881 of the University's bank balance was uninsured and uncollateralized.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Investments – University

The Money Management Act defines the types of securities authorized as appropriate investments for the University's nonendowment funds and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the University to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. Government sponsored enterprises (U.S. agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Money Management Act; and the Utah State Public Treasurers' Investment Fund (PTIF).

The UPMIFA and Rule 541 allow the University to invest endowment funds (including gifts, devises, or bequests of property of any kind from any source) in any of the above investments or any of the following, subject to satisfying certain criteria: mutual funds registered with the Securities and Exchange Commission (SEC); investments sponsored by the Common Fund; any investment made in accordance with the donor's directions in a written instrument; investments in corporate stock listed on a major exchange (direct ownership); and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital and private equity), natural resources, and private real estate assets or absolute return and long/short hedge funds.

The Utah State Treasurer's Office operates the PTIF. The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

In addition, the Dixie State University invests in the University of Utah's endowment pool. The University of Utah's endowment pool adheres to the guidelines established by UPMIFA and consists of global marketable equities, global marketable fixed income, and alternative investments. The University of Utah diversifies assets among several investment managers of varying investment strategies. Diversification is an effective means of maximizing return while mitigating risk. As of June 30, 2014, Dixie State University had \$7,632,443 invested at the University of Utah. Because the Dixie State University and the University of Utah are both part of the State of Utah, the University of Utah is not considered an external investment pool for Dixie State University.

As of June 30, 2014, the Dixie State University had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Utah Public Treasurers' Investment Fund	\$ 21,952,926	\$ 21,952,926	\$ -	\$ -	\$ -
Money Market Mutual Funds	100,155	100,155	-	-	-
U.S. Treasuries	483,912	-	-	412,755	71,157
Mutual Bond Funds	528,556	-	528,556	-	-
Totals	<u>\$ 23,065,549</u>	<u>\$ 22,053,081</u>	<u>\$ 528,556</u>	<u>\$ 412,755</u>	<u>\$ 71,157</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Money Management Act or the UPMIFA and Rule 541, as applicable. For nonendowment funds, Section 51-7-11 of the Money Management Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270 days – 15 months or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding three years. For endowment funds, Rule 541 is more general, requiring only that investments be made as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowments and by exercising reasonable care, skill, and caution.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for reducing its exposure to credit risk is to comply with the Money Management Act, the UPMIFA, and Rule 541, as previously discussed.

At June 30, 2014, the University had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Ratings</u>	
		<u>Unrated</u>	<u>Not Applicable</u>
Utah Public Treasurers' Investment Fund	\$ 21,952,926	\$ 21,952,926	\$ -
Money Market Mutual Funds	100,155	100,155	-
U.S. Treasuries	483,912	-	483,912
Mutual Bond Funds	528,556	528,556	-
Totals	<u>\$ 23,065,549</u>	<u>\$ 22,581,637</u>	<u>\$ 483,912</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council or the UPMIFA and Rule 541, as applicable. Rule 17 of the Money Management Council limits nonendowment fund investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio. For endowment funds, Rule 541 requires that a minimum of 25% of the overall endowment portfolio be invested in fixed income or cash equivalents. Also, the overall endowment portfolio cannot consist of more than 75% equity investments. Rule 541 also limits investments in alternative investment funds, as allowed by Rule 541, to between 0% and 30% based on the size of the University's endowment fund.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk. At June 30, 2014, the University had \$294,077 in alternative investments, which were held by the counterparty's trust department and not in the University's name.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Endowment Funds

According to UPMIFA, the governing board may appropriate for expenditure for the purposes for which an endowment is established, as much of the net appreciation, realized and unrealized, of the fair value of the assets of an endowment over the historical dollar value as is prudent under the facts and circumstances prevailing at the time of the action or decision.

The endowment income spending policy of the University is to allocate 4% of a three-year moving average of the market value of the endowment pool. The spending policy is reviewed periodically and any necessary changes are made.

The amount of net appreciation on investments of donor-restricted endowments that were available for authorization for expenditure at June 30, 2014 was \$1,506,660. The net appreciation is a component of restricted expendable net position.

Cash and Cash Equivalents – Foundation

At June 30, 2014, the Foundation had the following cash and cash equivalents:

	<u>Balance</u>
Cash on Hand	\$ 62
Cash in Bank	1,801,452
Certificate of Deposit	55,240
Money Market Funds (Held by Equity Managers)	<u>82,732</u>
Total	<u>\$ 1,939,486</u>

Cash in Bank is insured by the Federal Deposit Insurance Corporation (FDIC), except for \$1,333,824 which was uninsured as of June 30, 2014. Money Market Funds are covered against broker theft by the Securities Investors Protection Corporation. Cash and cash equivalents have the general characteristics of demand deposits so that funds may be withdrawn at any time without prior notice.

Credit Risks – Foundation

Investments with a market value of \$12,983,395 represent a risk factor subject to loss due to the volatility of the stock and bond markets.

Investments – Foundation

Investments are carried at market value on the Foundation's financial statements. The resultant cumulative net unrealized gain at June 30, 2014, was \$1,840,558 of which \$1,302,837 is the current year's unrealized gain.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

The amortized cost and estimated market value of investments at June 30, 2014 are as follows:

<u>Investments</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
Alternative Funds	\$ 550,817	\$ 47,219	\$ (19,133)	\$ 578,903
Fixed Income Bond Funds	2,625,699	26,489	(1,116)	2,651,072
Obligations of the U.S. Government Corporations and Agencies	307,441 1,767,569	106 -	(222)	307,325 1,767,569
Corporate Securities – Domestic	4,005,453	1,485,592		5,491,045
Corporate Securities – International	1,577,608	301,623		1,879,231
Other	308,250	-	-	308,250
Total	<u>\$ 11,142,837</u>	1,861,029	<u>\$ (20,471)</u>	12,983,395
Less Losses		(20,471)		
Total Cumulative Net Gain (Loss)		<u>\$ 1,840,558</u>		
Less Assets Held in Trust				-
Investments				<u>\$ 12,983,395</u>
Cumulative Net Unrealized Gain (Loss) 6/30/13		\$ 1,212,864		
Changes from Contributions, Realized Gains and Losses, and Changes in Assets Held in Trust		(675,143)		
2014 Unrealized Gain (Loss)		<u>1,302,837</u>		
Cumulative Net Unrealized Gain (Loss) 6/30/14		<u>\$ 1,840,558</u>		

NOTE 3. RECEIVABLES

Receivables at June 30, 2014 consisted of the following:

	<u>Balance as of June 30, 2014</u>	<u>Current Portion Due June 30, 2014</u>
Student Loans	\$ 1,743,668	\$ 375,357
Student Tuition and Fees	1,816,376	761,822
Auxiliary Enterprises and Other	431,422	352,693
Contracts and Grants	256,969	256,969
Primary Government/Related Parties	534,998	534,998
Total Receivables	<u>4,783,433</u>	<u>2,281,839</u>
Less Allowances for Bad Debts	<u>(1,418,597)</u>	<u>(159,418)</u>
Total Receivables, Net	<u>\$ 3,364,836</u>	<u>\$ 2,122,421</u>

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

NOTE 4. INVENTORIES

Inventories at June 30, 2014 consisted of the following:

Bookstore	\$ 639,935
Dining Services	69,740
IT Services	139,474
Fuel	<u>50,267</u>
Total Inventories	<u><u>\$ 899,416</u></u>

NOTE 5. CAPITAL ASSETS

Property, plant and equipment at June 30, 2014 are summarized as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital Assets, Non-depreciable				
Land and Permanent Easements	\$ 11,459,487	\$ 1,098,828	\$ -	\$ 12,558,315
Construction in Progress	4,006,970	224,005	4,006,971	224,004
Partial Interest in Foundation's Real Property	422,785	-	-	422,785
Total Capital Assets, Non-depreciable	<u>15,889,242</u>	<u>1,322,833</u>	<u>4,006,971</u>	<u>13,205,104</u>
Capital Assets, Depreciable				
Buildings	134,426,216	5,401,965	-	139,828,181
Equipment	12,586,189	1,258,892	756,890	13,088,191
Library Books	2,189,666	107,020	22,851	2,273,835
Land Improvements	11,251,913	623,060	66,144	11,808,829
Building Improvements	<u>3,441,946</u>	<u>-</u>	<u>-</u>	<u>3,441,946</u>
Total Capital Assets, Depreciable	163,895,930	7,390,937	845,885	170,440,982
Less Accumulated Depreciation For:				
Buildings	37,168,937	3,622,279	-	40,791,216
Equipment	7,255,957	1,211,672	663,604	7,804,025
Library Books	1,046,928	340,816	179,195	1,208,549
Land Improvements	5,395,680	379,507	-	5,775,187
Building Improvements	<u>61,355</u>	<u>68,839</u>	<u>-</u>	<u>130,194</u>
Total Depreciation	50,928,857	5,623,113	842,799	55,709,171
Total Capital Assets, Depreciable, Net	<u>112,967,073</u>	<u>1,767,824</u>	<u>3,086</u>	<u>114,731,811</u>
Total Capital Assets, Net	<u><u>\$ 128,856,315</u></u>	<u><u>\$ 3,090,657</u></u>	<u><u>\$ 4,010,057</u></u>	<u><u>\$ 127,936,915</u></u>

The University has certain works of art that are not capitalized or depreciated. These assets are held for public exhibition, education, or research, rather than financial gain. These assets are also protected, unencumbered, and preserved and are subject to policies requiring the proceeds from sales of collection items to be used to acquire other collection items. The

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

University's assets of this nature include Native American artifacts, photographs, prints, paintings, monuments, statues and other historical documents.

During fiscal year 2008, the University made a down payment on real property that the Foundation purchased. This property is referred to as the University (DAHLE) Plaza. Currently, the University's down payment is classified above as a partial interest in the Foundation's real property. The University also entered into an agreement, related to this property, which is described in more detail in Notes 12 and 13.

At June 30, 2014, the University had outstanding commitments for the construction and remodeling of University buildings of approximately \$145,667.

Capital Assets of the Foundation at June 30, 2014 consisted of the following:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance</u> <u>June 30, 2014</u>
Land	\$ 2,331,326	\$ -	\$ -	\$ 2,331,326
Buildings	3,025,474	-	-	3,025,474
Building Improvements	143,346	-	-	143,346
Total	<u>5,500,146</u>	<u>-</u>	<u>-</u>	<u>5,500,146</u>
Accumulated Depreciation	(363,935)	(79,221)	-	(443,156)
Capital Assets, Net	<u>\$ 5,136,211</u>	<u>\$ (79,221)</u>	<u>\$ -</u>	<u>\$ 5,056,990</u>
Collectible Art	<u>\$ 9,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,200</u>

NOTE 6. NOTES AND CAPITAL LEASES PAYABLE

The University has entered into capital lease agreements to acquire equipment. Equipment assets currently financed under capital lease and their accumulated depreciation amounts are \$2,064,778 and \$743,682, respectively. The University is currently paying on a bond that was entered into through the Utah State Board of Regents to acquire buildings. For financial statement purposes the bond is considered a capital lease for the University and shown as a bond for the Utah State Board of Regents. Capital leased buildings and their accumulated depreciation amounts are \$9,641,202 and \$3,571,440, respectively. The University has also entered into contracts to acquire property. Notes and capital leases payable at June 30, 2014 are summarized as follows:

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

	<u>Lease Term</u>	<u>Interest Rate</u>	<u>Balance June 30, 2014</u>
Notes and Capital Leases Payable			
Chase Equipment Finance, Inc.	2011-2017	2.88%	\$ 143,027
Canon Financial Services, Inc.	2011-2015	11.34%	1,210
Revco Leasing	2009-2018	13.56% - 14.93%	16,748
State Bank of Southern Utah	2011-2031	4.50% - 5.14%	819,520
US Bank	2011-2028	4.50%	3,414,696
Village Bank	2008-2025	4.25% - 4.75%	712,555
Wells Fargo	2006-2020	4.60% - 4.75%	310,670
Zions Bank	2006-2023	3.60% - 4.65%	3,230,000
Bank of America Public Capital	2013-2017	1.50%	152,704
US Bancorp Government Lease	2014-2024	3.02%	498,500
Total Notes and Capital Leases Payable			<u>\$ 9,299,630</u>

Future principal and interest payments are summarized as follows:

<u>Year Ending June 30</u>	<u>Capital Leases</u>	<u>Notes</u>	<u>Total Principal</u>	<u>Total Interest</u>
2015	\$ 672,171	\$ 136,718	\$ 808,889	\$ 398,802
2016	704,007	237,749	941,756	364,851
2017	741,100	290,147	1,031,247	327,033
2018	640,484	62,110	702,594	286,181
2019	673,317	57,461	730,778	256,935
2020-2024	2,960,138	327,885	3,288,023	796,080
2025-2029	1,376,338	258,662	1,635,000	228,765
2030-2034	-	161,343	161,343	14,941
Totals	<u>\$ 7,767,555</u>	<u>\$ 1,532,075</u>	<u>\$ 9,299,630</u>	<u>\$ 2,673,588</u>

The Foundation has entered into charitable gift annuity agreements wherein donors (the annuitants) conveyed to the Foundation assets in exchange for annual payments to the annuitants during the annuitants' joint lifetimes and for the life of the surviving annuitant. The liability is calculated at the date of donation by figuring the present value of the annual payments over the expected remaining life of the annuitants. Contributions revenue, which is the fair market value of the contribution less its corresponding liability, is included in the Statement of Revenues, Expenses, and Changes in Net Position for the year of contribution.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Future principal and interest payments for the annuity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 273,340	\$ 27,420	\$ 300,760
2016	281,313	19,447	300,760
2017	192,892	20,018	212,910
2018	68,343	7,717	76,060
2019	69,065	6,995	76,060
Thereafter	1,409,980	17,993	1,427,973
Totals	<u>\$ 2,294,933</u>	<u>\$ 99,590</u>	<u>\$ 2,394,523</u>

The Foundation had the following notes payable at June 30, 2014:

- A note payable with outstanding principal totaling \$3,271,353, interest at 3.25%, and a required monthly payment of \$19,285.
- A note payable with a current portion of \$45,538, a long-term portion of \$1,179,417, interest at 5%, and a required monthly payment of \$8,982 which is payable until the last payment—due on April 22, 2016 with all unpaid interest and principal. The note payable is secured by the purchased property.

The amounts due for each of the next five years and thereafter are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 174,597	\$ 164,605	\$ 339,202
2016	1,308,509	159,117	1,467,626
2017	135,497	95,923	231,420
2018	139,967	91,453	231,420
2019	139,967	91,453	231,420
Thereafter	2,597,771	631,023	3,228,794
Totals	<u>\$ 4,496,308</u>	<u>\$ 1,233,574</u>	<u>\$ 5,729,882</u>

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

NOTE 7. RETIREMENT OF DEBT

In a prior year, the Utah State Legislature authorized the funds to defease all of the University's outstanding auxiliary revenue bonds. The funds were put into irrevocable trusts to provide for all future debt service payments on the bonds. The principal balance of the University's defeased bonds at June 30, 2014 were as follows:

	Redemption Date	Principal Balance
Defeased Bonds		
Series 2006, 2006-2026	May 1, 2016	\$ 1,420,000
Total Defeased Bonds		\$ 1,420,000

NOTE 8. LIABILITIES

Accounts payable balances for the year ended June 30, 2014 were as follows:

Suppliers Payable	\$ 1,335,420
Accrued Interest	148,205
Student Refunds	58,350
Total Accounts Payable	\$ 1,541,975

Long-term liability activity for the year ended June 30, 2014 was as follows:

Description	Year Ended June 30, 2013	Additions	Reductions	Year Ended June 30, 2014	Current Portion
Notes and Capital Leases Payable					
Notes Payable	\$ 1,662,771	\$ -	\$ 130,697	\$ 1,532,074	\$ 136,718
Capital Leases Payable	7,881,844	498,500	612,788	7,767,556	672,171
Total Notes and Capital Leases Payable	9,544,615	498,500	743,485	9,299,630	808,889
Other Liabilities					
Compensated Absences	1,061,325	952,017	815,374	1,197,968	768,546
Early Retirement Benefits	169,472	598,629	66,676	701,425	227,305
Total Other Liabilities	\$ 1,230,797	\$ 1,550,646	\$ 882,050	\$ 1,899,393	995,851
Total Current Portion of Long-Term Liabilities					\$ 1,804,740

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

NOTE 9. PENSION PLANS AND RETIREMENT BENEFITS

Plan Description

The University contributes to the State and School Contributory Retirement System, State and School Noncontributory Retirement System, Public Safety Contributory System, and Public Safety Noncontributory System cost-sharing multiple-employer defined benefit pension plans and Internal Revenue Code Section 401(k) defined contribution plan administered by the Utah Retirement Systems (Systems) and the Defined Contribution Retirement Plan administered by Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). The Systems and TIAA-CREF provide refunds, retirement benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective chapters of *Utah Code*, Title 49. The Utah State Retirement Office Act in Title 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Contributory Retirement System, State and School Noncontributory System, 401(k) Plan, Public Safety Contributory System, and Public Safety Noncontributory System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 560 East 200 South, Salt Lake City, Utah, 84102-2021, or by calling 1-800-365-8772.

TIAA-CREF is administered by TIAA-CREF Individual & Institutional Services, which issues a publicly available financial report that includes financial statements and required supplementary information for the TIAA-CREF Defined Contribution Retirement Plan. A copy of the report may be obtained by writing to TIAA-CREF Individual & Institutional Services, 730 Third Avenue, New York, New York, 10017-3206, or by calling 1-800-842-2776.

Funding Policy

Plan members in the State and School Contributory Retirement System Tier 1 Plan are required to contribute 6.00% of their annual covered salary (all or part of the contribution may be paid by the employer for the employee) and the University is required to contribute 15.97% of eligible annual covered salary. In the State and School Contributory Retirement System Tier 2 Plan, the University is required to contribute 16.75%. In the State and School Noncontributory Retirement System, the University is required to contribute 20.46% of eligible annual covered salary. In the Public Safety Contributory System, the University is required to contribute 27.40% of eligible annual covered salary. In the Public Safety Noncontributory System, the University is required to contribute 39.31% of eligible annual covered salary. The contribution rates are the actuarially determined rates. The contribution

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

requirements of the Systems are authorized by statute and specified by the Board. In the TIAA-CREF Defined Contribution Plan, the University contributes 14.20% of eligible annual covered salary. The 401(k) Plan covers all eligible employees and the University contributes 1.5% of eligible annual covered salary.

The University's contributions to the various retirement plans were equal to the required amounts, as shown below:

	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2014</u>
Retirement Contributions			
State School-Contributory Retirement System	\$ 37,950	\$ 78,739	\$ 102,846
State School-Noncontributory Retirement System	881,729	949,694	1,012,286
Public Safety Contributory System	-	-	2,648
Public Safety Noncontributory System	68,166	81,729	79,124
TIAA-CREF Defined Contribution Retirement Plan	2,294,027	2,436,489	2,711,177
401(k) Plan Employer Contributions	78,905	76,142	73,725
401(k) Plan Employee Contributions	127,946	126,883	133,718
Total Retirement Contributions	<u>\$ 3,488,723</u>	<u>\$ 3,749,676</u>	<u>\$ 4,115,524</u>

NOTE 10. TERMINATION BENEFITS

In addition to the pension benefits described in Note 9, the University may provide termination benefits, in accordance with University policy and, if approved by the Board of Trustees, for those employees who are eligible and elect the University's early retirement option.

For fiscal year 2014, the following early retirement option was in effect:

Eligible employees are those who have at least five years of continuous service in a full-time, benefit-eligible position with the University, are at least age 57, and when age is combined with qualifying years of service the value is 75 or greater. An eligible employee receives the lesser of 20% of the employee's salary at the time the employee enters the early retirement program or the predicted Social Security benefit the employee will receive at full retirement age. This incentive is paid to the eligible employee until the earlier of five years or full retirement age. The employee is also eligible to receive the same coverage type of medical insurance and dental insurance the employee was receiving at the early retirement date, which continues for a maximum period of five years or to age 65, whichever comes first. These benefits are deducted from the early retirement incentive the employee receives on the same basis as non-retired employees.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

As of June 30, 2014, nine eligible employees have elected to take the early retirement option. The funding for these post-employment benefits is provided on a pay-as-you-go basis. For the year ended June 30, 2014, the stipend and benefits expense for the early retirement program totaled \$227,305. The early retirement liability is calculated using a 5% discount rate and a 3% inflation factor for salary and insurance premiums.

NOTE 11. RISK MANAGEMENT

The University maintains insurance coverage for commercial general liability, automobiles, errors and omissions, and property (buildings and equipment) through policies administered by the Utah State Risk Management Fund. Employees of the University and authorized volunteers are covered by workers' compensation and employees' liability through the Workers Compensation Fund of Utah.

NOTE 12. RELATED PARTY TRANSACTIONS

There are two properties that have been purchased by the Foundation which are referred to as the University Plaza and the Larkin property. The University has entered into agreements with the Foundation to rent and manage these properties on a month-to-month basis. The monthly amount that is being paid in rent is approximately \$38,267. This amount may change in the future depending upon the number of buildings the University rents from the Foundation. During fiscal year 2014, the University had rental expense for these two properties in the amount of \$459,202. In both cases, the University is hoping to acquire the money from the State Legislature to purchase both properties from the Foundation in the near future.

NOTE 13. CONTINGENT LIABILITIES

As mentioned above in Note 12, the University has entered into management agreements with the Foundation. In both of these agreements there is a provision that the University will cover any cash shortfall that may occur while managing these properties. The University's current rental payment for the Larkin property approximately equals the amount of the Foundation's monthly mortgage payment; therefore, this payment covers a significant portion of the cash outflow already. A cash shortfall related to the University Plaza could be as much as approximately \$19,300 per month. In order to mitigate these potential shortfalls, the University has set aside funding to cover the shortfalls if they occur, although any shortfalls related to these properties are not estimable at this time.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

NOTE 14. SUBSEQUENT EVENTS

President Richard B. Williams assumed leadership of the University, effective in the August 2014. President Williams came from Indiana State University, where he served as Provost and Vice-President for Academic Affairs.



OFFICE OF THE
UTAH STATE AUDITOR

INDEPENDENT STATE 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*

To the Board of Trustees, Audit Committee
and
Dr. Richard B. Williams, President
Dixie State University

We have audited the financial statements of the Dixie State University (University), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 25, 2015. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of the Dixie College Foundation (Foundation), as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University'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 University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 to 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of the Utah State Auditor

Office of the Utah State Auditor
March 25, 2015