

DIXIE STATE UNIVERSITY
A Component Unit of the State of Utah

Annual Financial Report
For the Year Ended June 30, 2013

Report No. 13-51



OFFICE OF THE
UTAH STATE AUDITOR

DIXIE STATE UNIVERSITY
A Component Unit of the State of Utah

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AUDIT LEADERSHIP:

Hollie Andrus, CPA, Audit Director
Jason Allen, CPA, CFE, Audit Supervisor

DIXIE STATE UNIVERSITY

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013

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OFFICE OF THE
UTAH STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Trustees, Audit Committee
and
Stephen D. Nadauld, 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, 2013, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of Dixie College 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 discretely presented component unit 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 discretely presented component unit 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 opinion.

Opinion

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 discretely presented component unit foundation, as of June 30, 2013, and the respective changes in financial position and, where applicable, 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 27, 2014 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

Office of the Utah State Auditor
March 27, 2014

DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013. 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 Dixie College 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, 2013

The following table summarizes the University's assets, liabilities, and net position at June 30, 2012 and 2013:

Condensed Statement of Net Position

	Year Ended June 30, 2012	Year Ended June 30, 2013	Amount of Increase (Decrease)
Assets			
Current Assets	\$ 27,790,984	\$ 24,617,646	\$ (3,173,338)
Capital Assets, Net	124,554,731	128,856,315	4,301,584
Other Assets	11,830,565	11,936,977	106,412
Total Assets	<u>164,176,280</u>	<u>165,410,938</u>	<u>1,234,658</u>
Liabilities			
Current Liabilities	8,477,774	5,594,407	(2,883,367)
Noncurrent Liabilities	9,768,031	9,149,877	(618,154)
Total Liabilities	<u>18,245,805</u>	<u>14,744,284</u>	<u>(3,501,521)</u>
Net Position			
Net Investment in Capital Assets	114,333,470	119,311,700	4,978,230
Restricted - Nonexpendable	9,483,342	9,201,236	(282,106)
Restricted - Expendable	5,955,319	7,660,035	1,704,716
Unrestricted	16,158,344	14,493,683	(1,664,661)
Total Net Position	<u>\$ 145,930,475</u>	<u>\$ 150,666,654</u>	<u>\$ 4,736,179</u>

Most increases and decreases in assets and liabilities centered on the completion of construction on the Jeffery R. Holland Centennial Commons Building (Holland Building), the Snow Math and Science Center, the ESCO Project, and the Memory Gardens.

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, 2013

The following table summarizes the University's revenues, expenses, and changes in net position for the years ended June 30, 2012 and 2013:

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

	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2013</u>	<u>Amount of Increase (Decrease)</u>
Operating Income			
Operating Revenues	\$ 36,747,141	\$ 37,622,723	875,582
Operating Expenses	81,681,663	85,456,795	3,775,132
Operating Income (Loss)	(44,934,522)	(47,834,072)	(2,899,550)
Nonoperating Revenues			
Nonoperating Revenues	44,988,786	48,319,595	3,330,809
Nonoperating Expenses	619,161	660,099	40,938
Net Nonoperating Revenues	44,369,625	47,659,496	3,289,871
Income (Loss) Before Other Revenues	(564,897)	(174,576)	390,321
Other Revenues	31,180,031	4,910,755	(26,269,276)
Increase (Decrease) in Net Position	30,615,134	4,736,179	(25,878,955)
Net Position – Beginning of Year	115,315,341	145,930,475	30,615,134
Net Position – End of Year	<u>\$ 145,930,475</u>	<u>\$ 150,666,654</u>	<u>\$ 4,736,179</u>

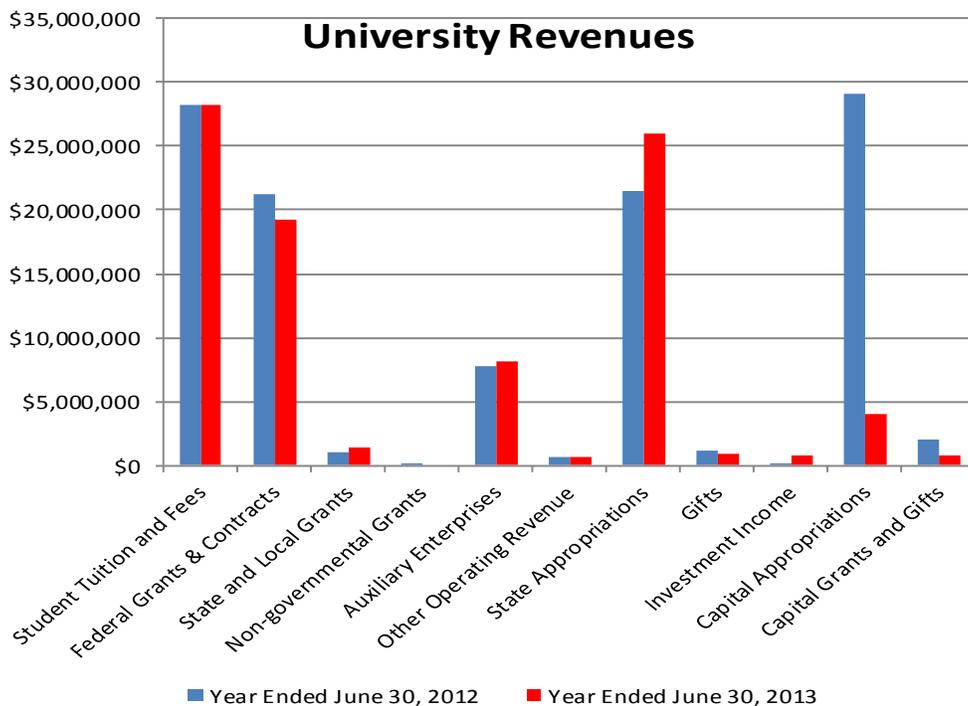
For the year ended June 30, 2013, the University experienced a net operating loss as shown above. In a normal year, an operating loss would be expected since the University receives a majority of its funding from nonoperating revenues. Appropriations, along with grants, investment income, and financial gifts from donors, are classified on the financial statements as nonoperating revenues. During the last two fiscal years, the net nonoperating revenues were not sufficient to cover the operating costs of the University.

DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

Revenues: The following table and graph summarize the University's revenues for the years ended June 30, 2012 and 2013:

	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2013</u>	<u>Percent of Total</u>	<u>Amount of Increase (Decrease)</u>	<u>Percentage Increase (Decrease)</u>
Operating Revenues					
Student Tuition and Fees, net	\$ 28,255,154	\$ 28,231,291	75.04%	\$ (23,863)	(0.08%)
Grants and Contracts	73,108	84,055	0.22%	10,947	14.97%
Auxiliary Enterprises, net	7,750,973	8,523,855	22.66%	772,882	9.97%
Other Operating Revenues	667,906	783,522	2.08%	115,616	17.31%
Total Operating Revenues	<u>\$ 36,747,141</u>	<u>\$ 37,622,723</u>	<u>100.00%</u>	<u>\$ 875,582</u>	<u>2.38%</u>
Nonoperating Revenues					
State Appropriations	\$ 21,473,539	\$ 25,963,029	53.73%	\$ 4,489,490	20.91%
Federal Grants	21,251,312	19,190,654	39.72%	(2,060,658)	(9.70%)
State and Local Grants	994,606	1,418,273	2.94%	423,667	42.60%
Private Grants	34,500	-	0.00%	(34,500)	(100.00%)
Gifts	1,114,371	952,888	1.97%	(161,483)	(14.49%)
Investment Income	120,458	794,751	1.64%	674,293	559.77%
Other Nonoperating Revenues	-	-	0.00%	-	0.00%
Total Nonoperating Revenues	<u>\$ 44,988,786</u>	<u>\$ 48,319,595</u>	<u>100.00%</u>	<u>\$ 3,330,809</u>	<u>7.40%</u>
Other Revenues					
Capital Appropriations	\$ 29,160,424	\$ 4,066,391	82.81%	\$ (25,094,033)	(86.06%)
Capital Grants and Gifts	1,957,198	637,218	12.98%	(1,319,980)	(67.44%)
Additions to Permanent Endowments	62,409	207,146	4.22%	144,737	231.92%
Total Other Revenues	<u>\$ 31,180,031</u>	<u>\$ 4,910,755</u>	<u>100.00%</u>	<u>\$ (26,269,276)</u>	<u>(84.25%)</u>



DIXIE STATE UNIVERSITY

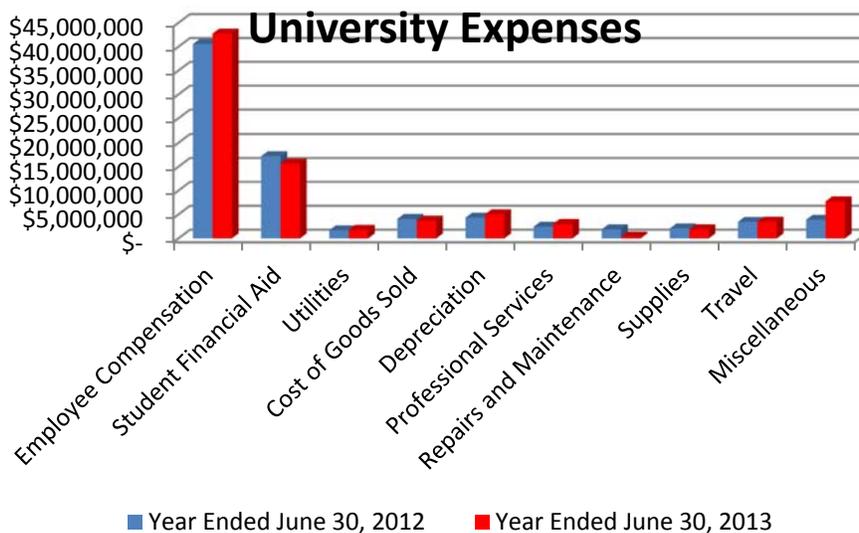
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

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. 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.

Nonoperating revenues increased overall when compared to the prior year as shown above. This increase is primarily attributable to state appropriations for the change to university status. Other significant decreases are due to the loss of capital appropriations for the Holland Building that was completed in fiscal year 2012 and due to federal sequester cuts in federal grants and contracts, mostly affecting Pell Grants.

Expenses: The following table and graph summarize the University's operating expenses for the years ended June 30, 2012 and 2013:

	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2013</u>	<u>Percent of Total</u>	<u>Amount of Increase (Decrease)</u>	<u>Percentage Increase (Decrease)</u>
Operating Expenses					
Employee Compensation	\$ 40,575,773	\$ 42,740,329	50.01%	\$ 2,164,556	5.33%
Student Financial Aid	17,205,483	15,669,829	18.34%	(1,535,654)	(8.93%)
Utilities	1,699,509	1,794,941	2.10%	95,432	5.62%
Cost of Goods Sold	4,084,287	3,700,939	4.33%	(383,348)	(9.39%)
Depreciation	4,341,944	5,033,538	5.89%	691,594	15.93%
Professional Services	2,439,225	3,024,988	3.54%	585,763	24.01%
Repairs and Maintenance	1,888,069	372,143	0.44%	(1,515,926)	(80.29%)
Supplies	2,085,415	1,884,442	2.21%	(200,973)	(9.64%)
Travel	3,465,192	3,497,356	4.09%	32,164	0.93%
Miscellaneous	3,896,766	7,738,290	9.06%	3,841,524	98.58%
Total Operating Expenses	<u>\$ 81,681,663</u>	<u>\$ 85,456,795</u>	<u>100.00%</u>	<u>3,775,132</u>	<u>4.62%</u>



DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

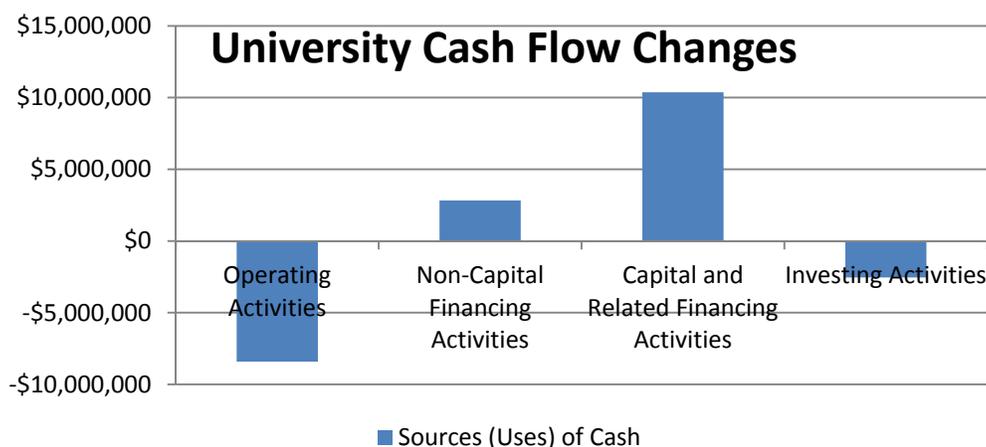
Operating expenses increased overall when compared to the prior year as shown above. As the chart above shows, the majority of this increase is a reflection of an increase of salary and benefits for faculty and staff, with a decrease in student financial aid resulting from the federal sequestration. Miscellaneous expenses increased due to the reductions in reimbursements from the State Division of Facilities Construction and Management for the Holland Building construction. Without these reimbursements, the miscellaneous expenses returned to pre-Holland Building levels.

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, 2012 and 2013:

Condensed Statement of Cash Flows

	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2013</u>	<u>Amount of Increase (Decrease)</u>	<u>Percentage of Change in Inflows (Outflows)</u>
Cash Provided (Used) by:				
Operating Activities	\$ (37,697,126)	\$ (46,108,127)	\$ (8,411,001)	22.31%
Noncapital Financing Activities	45,123,734	47,947,079	2,823,345	6.26%
Capital and Related Financing Activities	(12,679,826)	(2,305,670)	10,374,156	(81.82%)
Investing Activities	3,185,170	639,790	(2,545,380)	(79.91%)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,068,048)	173,072	2,241,120	(108.37%)
Cash and Cash Equivalents – Beginning of Year	25,086,342	23,018,294	(2,068,048)	
Cash and Cash Equivalents – End of Year	<u>\$ 23,018,294</u>	<u>\$ 23,191,366</u>	<u>\$ 173,072</u>	



DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

The University's overall liquidity increased from the previous year. The increase in funds used for operating activities resulted from the hiring of additional faculty to meet student demand. Cash provided by capital and related financing activities decreased due to the completion of the Holland Building and other projects. The decrease in cash provided by investing activities was a result investment funding used for the Holland Building.

Capital Assets and Debt Administration

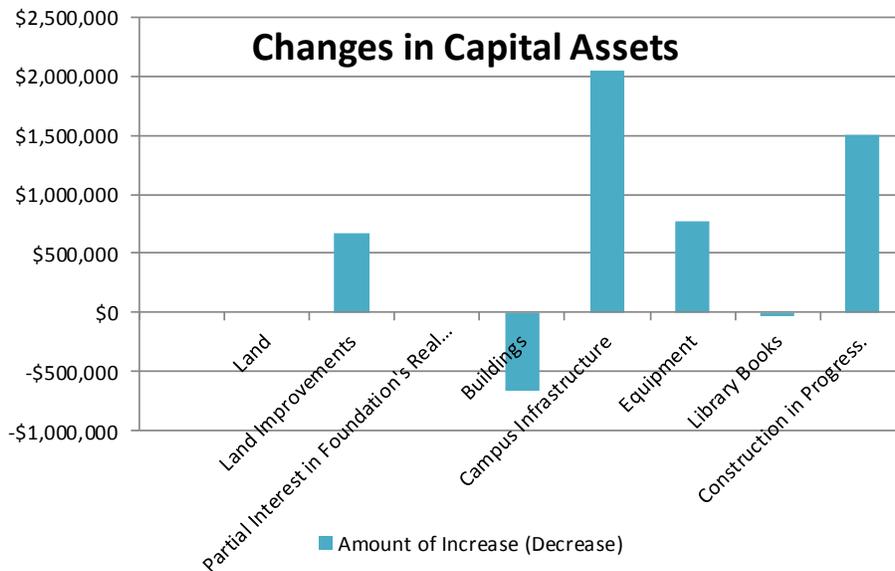
Capital Assets: Investment in capital assets includes land, partial interest in Foundation's real property, land improvements, buildings, equipment, library books, and construction in progress. The land improvements increase is due to the completion of the Centennial Plaza. The increase in campus infrastructure is due to Heating Plant upgrades and the ESCO project completion. The increase in construction in progress is due to the remodel of the Snow Science Center, the Memory Gardens and the Holland Teardrop projects. 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, 2012 and 2013:

Capital Assets, Net	Year Ended	Year Ended	Amount of	Percent of
	June 30, 2012	June 30, 2013	Increase (Decrease)	Increase (Decrease)
Land	\$ 11,459,487	\$ 11,459,487	\$ -	0.00%
Land Improvements	5,191,073	5,856,233	665,160	12.81%
Partial Interest in Foundation's Real Property	422,785	422,785	-	0.00%
Buildings	97,912,324	97,257,279	(655,045)	(0.67%)
Building Improvements	1,333,285	3,380,591	2,047,306	153.55%
Equipment	4,564,194	5,330,232	766,038	16.78%
Library Books	1,167,178	1,142,738	(24,440)	(2.09%)
Construction in Progress	2,504,405	4,006,970	1,502,565	60.00%
Total Capital Assets, Net	\$124,554,731	\$ 128,856,315	\$ 4,301,584	3.45%

DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013



Notes, Contracts, and Capital Leases:

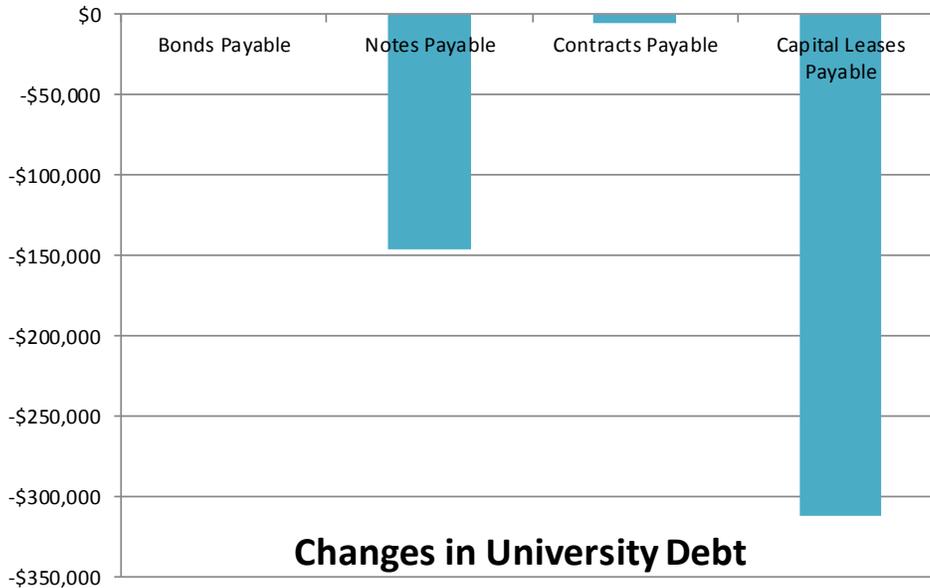
The University debt decreased for fiscal year 2013. This was due to normal activity from the payment on the loans. Additional information related to the University's liabilities is presented in Notes 6, 7, and 8 to the financial statements.

The following table and graph summarize outstanding University debt at June 30, 2012 and 2013:

	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2013</u>	<u>Amount of Increase (Decrease)</u>	<u>Percentage of Increase (Decrease)</u>
University Debt				
Bonds Payable	\$ -		\$ -	0.00%
Notes Payable	1,809,585	1,662,771	(146,814)	(8.11%)
Contracts Payable	5,104	-	(5,104)	(100.00%)
Capital Leases Payable	8,194,128	7,881,844	(312,284)	(3.81%)
Total Debt	<u>\$ 10,008,817</u>	<u>\$ 9,544,615</u>	<u>\$ (464,202)</u>	<u>(4.64%)</u>

DIXIE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013



Economic Outlook

Utah's economy is recovering, like the other states in the nation, from the turmoil that occurred in the financial markets several years ago. Due to this and the ability of the school to offer bachelor's degrees, the University has grown by over 60% since fiscal year 2008. This growth has fueled the expansion of the University degree offerings which is, in turn, fueling more growth.

The St. George area is experiencing growth again, which will place downward pressure on University enrollment. The Church of Jesus Christ of Latter-Day Saints' decision to allow young men and women to go on church missions at an earlier age is also having a temporary negative impact on enrollment. Despite these issues, the change to a University status and the growth in the St. George area will continue to propel growth at the University. Management has a positive outlook of their current strategic plans for future growth.

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
AS OF JUNE 30, 2013

	Primary Institution	Component Unit Foundation
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	\$ 21,602,109	\$ 928,660
Investments (Note 2)	318,734	3,494,386
Accounts and Notes Receivable, Net (Note 3)	1,004,550	1,171
Accounts Receivable - Primary Government/Related Parties (Note 3)	285,453	28,263
Inventories (Note 4)	1,065,145	-
Student Loans Receivable, Net (Note 3)	334,413	-
Prepaid Expenses	7,242	-
Total Current Assets	24,617,646	4,452,480
Noncurrent Assets		
Restricted Cash and Cash Equivalents (Note 2)	1,589,257	214,002
Investments (Note 2)	8,674,285	8,600,857
Accounts and Notes Receivable, Net (Note 3)	300,160	240,635
Student Loans Receivable, Net (Note 3)	1,373,275	-
Capital Assets, Net (Note 5)	128,856,315	5,145,411
Total Noncurrent Assets	140,793,292	14,200,905
Total Assets	165,410,938	18,653,385
LIABILITIES		
Current Liabilities		
Accounts Payable (Note 8)	1,575,315	9,193
Accounts Payable - Primary Government/Related Parties	714,917	-
Accrued Liabilities (Note 8)	751,096	-
Compensated Absences and Termination Benefits (Notes 8 through 10)	882,050	-
Deposits	327,919	-
Unearned Revenue	599,625	-
Notes, Contracts and Capital Leases Payable (Notes 6 and 8)	743,485	460,375
Total Current Liabilities	5,594,407	469,568
Noncurrent Liabilities		
Compensated Absences and Termination Benefits (Notes 8 through 10)	348,747	-
Notes, Contracts, and Capital Leases Payable (Notes 6 and 8)	8,801,130	6,110,740
Total Noncurrent Liabilities	9,149,877	6,110,740
Total Liabilities	14,744,284	6,580,308
NET POSITION		
Net Investment in Capital Assets	119,311,700	-
Restricted For		
Nonexpendable		
Scholarships and Fellowships	8,887,669	-
Other	313,567	-
Foundation	-	8,600,857
Expendable		
Scholarships and Fellowships	1,587,017	-
Loans	1,931,180	-
Capital Projects	2,205,854	-
Debt Service	385,180	-
Other	1,550,804	-
Foundation	-	3,247,437
Unrestricted	14,493,683	224,783
Total Net Position	\$ 150,666,654	\$ 12,073,077

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

DIXIE STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
AS OF JUNE 30, 2013

	Primary Institution	Component Unit Foundation
OPERATING REVENUES		
Student Tuition and Fees, net (Note 1)	\$ 28,231,291	\$ -
Federal Grants and Contracts	63,992	-
Auxiliary Enterprises, net (Note 1)	8,523,855	473,771
State and Local Grants and Contracts	20,063	-
Foundation Contributions Received	-	490,040
Other Operating Revenues	783,522	4,124
Total Operating Revenues	37,622,723	967,935
OPERATING EXPENSES		
Salaries and Wages	31,869,638	-
Employee Benefits	10,870,691	-
Student Financial Aid	15,669,829	-
Donation to the College	-	414,455
Utilities	1,794,941	-
Cost of Goods Sold	3,700,939	-
Depreciation	5,033,538	-
Other Operating Expenses	16,517,219	717,864
Total Operating Expenses	85,456,795	1,132,319
Operating Income (Loss)	(47,834,072)	(164,384)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	25,963,029	-
Federal Grants	19,190,654	-
State Grants	1,308,273	-
Local Grants	110,000	-
Gifts	952,888	-
Investment Income	794,751	1,469,648
Interest on Capital Asset Related Debt	(435,715)	-
Other Nonoperating Revenues (Expenses)	(224,384)	(224,301)
Net Nonoperating Revenues (Expenses)	47,659,496	1,245,347
Income (Loss) Before Other Revenues	(174,576)	1,080,963
OTHER REVENUES (EXPENSES)		
Capital Appropriations	4,066,391	-
Capital Grants and Gifts	637,218	-
Additions to Permanent Endowments	207,146	840,307
Total Other Revenues (Expenses)	4,910,755	840,307
Increase (Decrease) in Net Position	4,736,179	1,921,270
Net Position – Beginning of Year	145,930,475	10,151,807
Net Position – End of Year	\$ 150,666,654	\$ 12,073,077

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

DIXIE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	Primary Institution
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Tuition and Fees	\$ 27,678,597
Receipts from Grants and Contracts	84,055
Receipts from Auxiliary Enterprises	9,401,942
Payments for Compensation and Benefits	(42,732,033)
Payments to Vendors and Suppliers	(24,826,463)
Payments for Scholarships and Fellowships	(15,763,190)
Receipt of Student Loan Proceeds	2,083
Loans Issued to Students	(189,058)
Collection of Loans to Students	235,940
	(46,108,127)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	25,963,029
Receipts from State Grants	1,308,273
Receipts from Federal Student Financial Aid	19,190,654
Receipts from Other Grants	37,607
Receipts from Gifts and Endowments	1,098,017
Receipts from William D. Ford National Direct Student Loan	25,349,504
Payments to William D. Ford National Direct Student Loan	(25,314,177)
Other Receipts (Payments)	314,172
	47,947,079
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from Capital Grants and Gifts	595,594
Proceeds from Capital Debt Issued	272,502
Proceeds from Sale of Capital Assets	13,691
Acquisition and Construction of Capital Assets	(2,010,100)
Principal Paid on Capital Debt and Leases	(736,703)
Interest Paid on Capital Debt and Leases	(440,654)
	(2,305,670)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	512,603
Investment Income	480,730
Purchase of Investments and Related Fees	(353,543)
	639,790
Net Increase (Decrease) in Cash and Cash Equivalents	173,072
Cash and Cash Equivalents – Beginning of Year	23,018,294
Cash and Cash Equivalents – End of Year	\$ 23,191,366

(continued)

DIXIE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

(continued)

	<u>Primary Institution</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (47,834,072)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	5,033,538
Provision for Uncollectible Loans and Writeoffs	70,935
Changes in Assets and Liabilities:	
Receivables, Net	(308,583)
Inventories	120,732
Prepaid Items	2,301
Notes Receivable, Net	(44,396)
Accounts Payable and Accrued Liabilities	(1,214,388)
Accounts Receivable - Primary Government	(1,914,967)
Unearned Revenue	(149,546)
Compensated Absences	130,319
Total Adjustments	<u>1,725,945</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (46,108,127)</u>
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Completed Construction Project Transferred from the State of Utah	\$ 3,250,499
Assets Acquired Through a Gift	(41,624)
Change in Fair Value of Investments	(289,551)
Capital Asset Write-Offs	162,581
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 3,081,905</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, 2013

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, which 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) is a separate but affiliated self-sustaining not-for-profit organization. Because the Foundation was established to receive gifts 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, 2013

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 component unit'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 to 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 improvements to buildings costing \$20,000 or more that extend the useful life and land improvements that cost \$20,000 or more. The capitalization of other capital assets is

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

determined at acquisition based on guidelines developed by the Utah State Division of 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 components 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. 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. Thus, no liability exists for sick leave earned in prior periods.

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 contracts 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, 2013

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 \$9,099,428 against student tuition and fees and an allowance of \$50,423 against auxiliary enterprises revenue.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

NOTE 2. DEPOSITS AND INVESTMENTS PORTFOLIO

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, 2013, \$1,162,669 of the University's bank balance was uninsured and uncollateralized.

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.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing Association (Sallie 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, 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 participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

As of June 30, 2013, the 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	\$ 21,185,317	\$ 21,185,317	\$ -	\$ -	\$ -
Money Market Mutual Funds	667,771	667,771	-	-	-
U.S. Treasuries	515,262	-	20,170	423,498	71,594
Mutual Funds, Bonds, and Corporation Debt	<u>497,590</u>	<u>-</u>	<u>497,590</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 22,865,940</u>	<u>\$ 21,853,088</u>	<u>\$ 517,760</u>	<u>\$ 423,498</u>	<u>\$ 71,594</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 non-endowment 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.

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.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

At June 30, 2013, the University had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		BBB	BB	Unrated	Not Applicable
Utah Public Treasurers' Investment Fund	\$ 21,185,317	\$ -	\$ -	\$ 21,185,317	\$ -
Money Market Mutual Funds	667,771	-	-	667,771	-
U.S. Treasuries	515,262	-	-	-	515,262
Mutual Funds, Bonds, and Corporate Debt	<u>497,590</u>	<u>70,212</u>	<u>287,240</u>	<u>140,138</u>	<u>-</u>
Totals	<u>\$ 22,865,940</u>	<u>\$ 70,212</u>	<u>\$ 287,240</u>	<u>\$ 21,993,226</u>	<u>\$ 515,262</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 non-endowment 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, 2013, the University had \$314,543 in alternative investments, which were held by the counterparty's trust department and not in the University's name.

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

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013 was \$754,466. The net appreciation is a component of restricted expendable net position.

Cash and Cash Equivalents – Foundation

At June 30, 2013, the Foundation had the following cash and cash equivalents:

	<u>Balance</u>
Cash on Hand	\$ 62
Cash in Bank	838,380
Certificate of Deposit	55,000
Money Market Funds (Held by Equity Managers)	<u>35,218</u>
Total	<u>\$ 928,660</u>

Cash in Bank is insured by the Federal Deposit Insurance Corporation (FDIC) except for \$415,109 which was uninsured as of June 30, 2013. 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 \$12,095,243 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, 2013, was \$1,212,864 of which \$807,242 is the current year's unrealized gain.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

The amortized cost and estimated market value of investments at June 30, 2013 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	\$ 984,597	\$ -	\$ (64,172)	\$ 920,425
Fixed Income Bond Funds	2,130,854	-	(10,290)	2,120,564
Obligations of U.S. Government – Corporations and Agencies	788,153	-	(24,302)	763,851
Corporate Securities – Domestic	4,966,613	1,131,853		6,098,466
Corporate Securities – International	2,008,469	179,775		2,188,244
Other	-	-	-	3,693
Total	<u>\$ 10,878,686</u>	1,311,628	<u>\$ (98,764)</u>	12,095,243
Less Losses		<u>(98,764)</u>		
Total Cumulative Net Gain (Loss)		<u>\$ 1,212,864</u>		
Less Assets Held in Trust Investments				<u>-</u> <u>\$ 12,095,243</u>
Cumulative Net Unrealized Gain(Loss) 6/30/12		\$ 368,982		
Changes from Contributions, Realized Gains and Losses, and Changes in Assets Held in Trust		36,640		
2013 Unrealized Gain (Loss)		<u>807,242</u>		
Cumulative Net Unrealized Gain (Loss) 6/30/13		<u>\$ 1,212,864</u>		

NOTE 3. RECEIVABLES

Receivables at June 30, 2013 consisted of the following:

	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2013</u>	<u>Increase (Decrease) in Receivables</u>	<u>Year Ended June 30, 2013 (Current Portion)</u>
Student Loans	\$ 2,221,608	\$ 2,124,563	\$ (97,045)	\$ 334,413
Student Tuition and Fees	1,032,294	1,302,782	270,488	563,468
Auxiliary Enterprises and Other	673,202	666,556	(6,646)	399,765
Contracts and Grants	208,125	205,826	(2,299)	205,826
Notes Receivable	-	-	-	-
Primary Government/Related Parties	3,745,845	285,453	(3,460,392)	285,453
Total Receivables	<u>7,881,074</u>	<u>4,585,180</u>	<u>(3,295,894)</u>	<u>1,788,925</u>
Less Allowances for Bad Debts	<u>(1,311,297)</u>	<u>(1,287,329)</u>	<u>23,968</u>	<u>(164,509)</u>
Total Receivables, Net	<u>\$ 6,569,777</u>	<u>\$ 3,297,851</u>	<u>\$ (3,271,926)</u>	<u>\$ 1,624,416</u>

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 4. INVENTORIES

Asset inventories at June 30, 2013 consisted of the following:

	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2013</u>	<u>Increase (Decrease)</u>
Bookstore	\$ 872,542	\$ 730,906	\$ (141,636)
Dining Services	86,551	80,682	(5,869)
IT Services	176,298	199,790	23,492
Fuel	50,486	53,767	3,281
Total Inventories	<u>\$ 1,185,877</u>	<u>\$ 1,065,145</u>	<u>\$ (120,732)</u>

NOTE 5. CAPITAL ASSETS

Property, plant and equipment at June 30, 2013 are summarized as follows:

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>
Capital Assets, Non-depreciable				
Land and Permanent Easements	\$ 11,459,487	\$ -	\$ -	\$ 11,459,487
Construction in Progress	2,504,405	3,425,325	1,922,760	4,006,970
Partial Interest in Foundation's Real Property	422,785		-	422,785
Total Capital Assets, Non-depreciable	<u>14,386,677</u>	<u>3,425,325</u>	<u>1,922,760</u>	<u>15,889,242</u>
Capital Assets, Depreciable				
Buildings	133,033,782	2,844,778	1,452,344	134,426,216
Equipment	11,255,453	1,976,242	645,506	12,586,189
Library Books	2,129,301	85,451	25,086	2,189,666
Land Improvements	10,244,749	1,007,164	-	11,251,913
Building Improvements	1,346,753	2,095,193	-	3,441,946
Total Capital Assets, Depreciable	<u>158,010,038</u>	<u>8,008,828</u>	<u>2,122,936</u>	<u>163,895,930</u>
Less Accumulated Depreciation For:				
Buildings	35,121,458	3,442,785	1,395,306	37,168,937
Equipment	6,691,259	1,134,734	570,036	7,255,957
Library Books	962,123	107,974	23,169	1,046,928
Land Improvements	5,053,676	342,004	-	5,395,680
Building Improvements	13,468	47,887	-	61,355
Total Depreciation	<u>47,841,984</u>	<u>5,075,384</u>	<u>1,988,511</u>	<u>50,928,857</u>
Total Capital Assets, Depreciable, Net	<u>110,168,054</u>	<u>2,933,444</u>	<u>134,425</u>	<u>112,967,073</u>
Total Capital Assets, Net	<u>\$ 124,554,731</u>	<u>\$ 6,358,769</u>	<u>\$ 2,057,185</u>	<u>\$ 128,856,315</u>

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 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 that is described in more detail in Note 12 and 13.

At June 30, 2013, the University had outstanding commitments for the construction and remodeling of University buildings of approximately \$267,362.

Capital Assets of the Foundation at June 30, 2013 consisted of the following:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance</u> <u>June 30, 2013</u>
Land	\$ 2,331,326	\$ -	\$ -	\$ 2,331,326
Buildings	3,025,474	-	-	3,025,474
Building Improvements	143,346	-	-	143,346
Total	5,500,146	-	-	5,500,146
Accumulated Depreciation	(284,714)	(79,221)	-	(363,935)
Capital Assets, Net	<u>\$ 5,215,432</u>	<u>\$ (79,221)</u>	<u>\$ -</u>	<u>\$ 5,136,211</u>
Collectible Art	<u>\$ 9,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,200</u>

NOTE 6. NOTES, CONTRACTS, AND CAPITAL LEASES PAYABLE

The University has entered capital lease agreements to acquire equipment. Equipment assets currently financed under capital lease and their accumulated depreciation amounts are \$1,566,278 and \$547,638 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 building assets and their depreciation amounts are \$9,641,202 and \$3,304,093, respectively. The University has also entered into contracts to acquire property. Contracts and capital leases payable at June 30, 2013 are summarized as follows:

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	Lease Term	Interest Rate	Balance June 30, 2013
Notes, Contracts, and Capital Leases Payable			
Chase Equipment Finance, Inc.	2010-2016	2.88%	\$ 188,201
Canon Financial Services, Inc.	2011-2014	11.34%	3,433
Revco Leasing	2009-2018	13.89% - 22.27%	24,022
State Bank of Southern Utah	2011-2031	4.50% - 5.14%	851,140
US Bank	2009-2027	4.50% - 16.15%	3,539,460
Village Bank	2007-2025	4.00% - 4.75%	811,631
Wells Fargo	2006-2020	4.60% - 7.25%	369,620
Zions Bank	2006-2023	3.60% - 4.65%	3,555,000
Bank of America Public Capital	2013-2017	1.50%	202,108
			\$ 9,544,615

Future principal and interest payments are summarized as follows:

Year Ending June 30	Capital Leases	Contracts and Notes	Total Principal	Total Interest
2014	\$ 612,788	\$ 130,697	\$ 743,485	\$ 415,211
2015	628,732	136,719	765,451	383,735
2016	659,255	237,749	897,004	351,096
2017	694,996	290,147	985,143	314,631
2018	592,986	62,109	655,095	275,173
2019-2023	3,024,242	313,929	3,338,171	921,318
2024-2028	1,668,845	280,947	1,949,792	316,497
2029-2033	-	210,474	210,474	24,571
Totals	\$ 7,881,844	\$ 1,662,771	\$ 9,544,615	\$ 3,002,232

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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>
2014	\$ 292,150	\$ 31,110	\$ 323,260
2015	299,579	23,681	323,260
2016	253,233	55,777	309,010
2017	87,730	10,830	98,560
2018	70,867	27,693	98,560
Thereafter	795,522	48,008	843,530
Totals	<u>\$ 1,799,081</u>	<u>\$ 197,099</u>	<u>\$ 1,996,180</u>

The Foundation had the following notes payable at June 30, 2013:

- A note payable with outstanding principal totaling \$3,394,279 and interest at 3.25%, requiring \$19,285 is payable monthly. The remaining principal is due with a balloon payment in May 2014. The note payable is secured by the purchased property, University Plaza. The Foundation believes that the State of Utah will not fund the Foundation for the cost of the Plaza. If the State of Utah does not fund the Plaza before the due date, it is expected that a new note with similar terms will be executed.
- A note payable with a current portion of \$43,092 and a long-term portion of \$1,227,162, bears interest at 5%, \$8,982 is payable monthly 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>
2014	\$ 168,225	\$ 170,978	\$ 339,203
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
Thereafter	2,737,737	722,476	3,460,213
Totals	<u>\$ 4,664,532</u>	<u>\$ 1,404,552</u>	<u>\$ 6,069,084</u>

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013 are 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, 2013 were as follows:

	Year Ended June 30, 2012	Year Ended June 30, 2013	Increase (Decrease)
Accounts Payable			
Suppliers Payable	\$ 2,462,744	\$ 1,370,379	\$ (1,092,365)
Accrued Interest	162,502	157,562	(4,940)
Student Refunds	58,210	47,374	(10,836)
Total Accounts Payable	\$ 2,683,456	\$ 1,575,315	\$ (1,108,141)

Long-term liability activity for the year ended June 30, 2013 was as follows:

Description	Year Ended 2012	Additions	Reductions	Year Ended 2013	Current Portion
Notes, Contracts and Capital Leases Payable					
Notes Payable	\$ 1,809,585	\$ -	\$ 146,814	\$ 1,662,771	\$ 130,697
Contracts Payable	5,104	-	5,104	-	-
Capital Leases Payable	8,194,128	272,502	584,786	7,881,844	612,788
Total Contracts and Capital Leases Payable	10,008,817	272,502	736,704	9,544,615	743,485
Other Liabilities					
Compensated Absences	1,068,252	633,828	640,755	1,061,325	815,374
Early Retirement Benefits	32,225	153,979	16,732	169,472	66,676
Total Other Liabilities	1,100,477	787,807	657,487	1,230,797	882,050
Total Current Portion of Long-Term Liabilities					\$1,625,535
Total Long-term Liabilities	11,109,294	1,060,309	1,394,191	10,775,412	
Less: Current Portion	1,341,263	1,625,535	1,341,263	1,625,535	
Total Noncurrent Liabilities	\$ 9,768,031	\$(565,226)	\$ 52,928	\$ 9,149,877	

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, 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 Systems Administration chapter of 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, 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 14.27% of eligible annual covered salary. In the State and School Contributory Retirement System Tier 2 Plan, the University is required to contribute 15.06%. In the State and School Noncontributory Retirement System, the University is required to contribute 18.76% of eligible annual covered salary. In the Public Safety Noncontributory System, the University is required to contribute 37.29% of eligible annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board. In the TIAA-CREF Defined Contribution Plan, the

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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:

	Year Ended June 30, 2011	Year Ended June 30, 2012	Year Ended June 30, 2013
Retirement Contributions			
State School-Contributory Retirement System	\$ 16,768	\$ 37,950	\$ 78,739
State School-Noncontributory Retirement System	812,533	881,729	949,694
Public Safety Noncontributory System	62,557	68,166	81,729
TIAA-CREF Defined Contribution Retirement Plan	2,069,762	2,294,027	2,436,489
401(k) Plan Employer Contributions	74,979	78,905	76,142
401(k) Plan Employee Contributions	120,166	127,946	126,883
Total Retirement Contributions	\$ 3,156,765	\$ 3,488,723	\$ 3,749,676

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 2013, the following early retirement option is in effect:

Eligible employees are those who retire from the University on or after age 57 and whose combined total of age and years of service is 75. The benefits include a semi-monthly stipend of 20% of the retiree's salary at the time of active employment, medical insurance, dental insurance, and life insurance for a maximum period of five years or to age 65, whichever comes first. These benefits are fully paid by the University.

As of June 30, 2013, five 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, 2013, the stipend and benefits expense for the early retirement program totaled \$169,472. 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

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 \$30,946. This amount may change in the future depending upon the number of buildings the University rents from the Foundation. During fiscal year 2013, the University had rental expense for these two properties in the amount of \$371,347. 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 though any shortfalls related to these properties are not estimable at this time.

NOTE 14. SUBSEQUENT EVENTS

The University will complete a clock tower in April of 2014. Funding for the tower is from a combination of University resources and donations.

President Stephen D. Nadauld announced his retirement from the University, effective in the summer of 2014. An aggressive search for a new President is currently being conducted.

DIXIE STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 15. FUTURE CHANGES IN ACCOUNTING STANDARDS

The governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The requirements of this Statement are effective for fiscal year 2014. In addition, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and GASB Statement No. 68, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27*, effective for fiscal years 2014 and 2015, respectively.

These new accounting and reporting standards may impact the University's recognition and timing of assets and liabilities in the financial statements. These statements may require restating of beginning net position. The University is not planning to early implement these statements, and has made no estimation of the effect these statements will have on the financial statements.