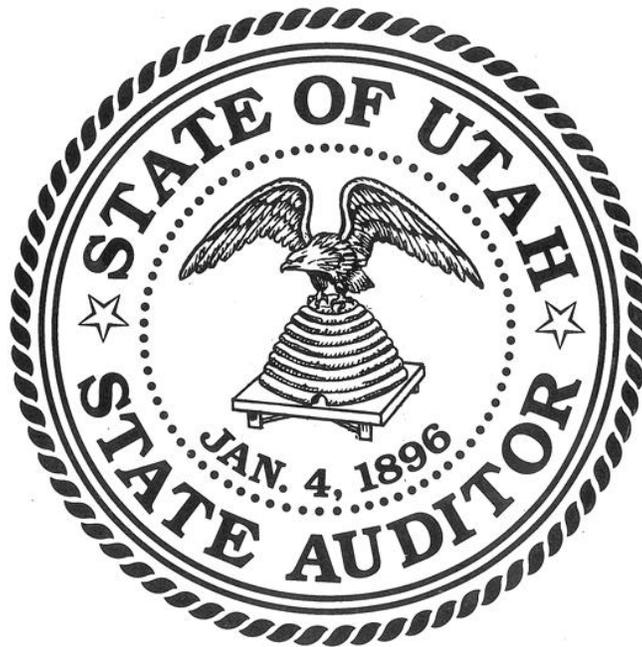


DIXIE STATE UNIVERSITY

A Component Unit of the State of Utah

Annual Financial Report
For the Year Ended June 30, 2012

Report No. 12-58



OFFICE OF THE
UTAH STATE AUDITOR

DIXIE STATE UNIVERSITY

A Component Unit of the State of Utah

Annual Financial Report
For the Year Ended June 30, 2012

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AUDIT TEAM:

Hollie Andrus, CPA, Audit Director
Kimberlee Beck, CPA, CFE, Audit In-Charge
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DIXIE STATE UNIVERSITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012

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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

We have audited the accompanying financial statements of Dixie State University (the University) and, based on the report of other auditors, its discretely presented Component Unit Foundation, which collectively comprise the University's basic financial statements, as of and for the year ended June 30, 2012, as listed in the table of contents. The University is a component unit of the State of Utah. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented Component Unit Foundation. Those financial statements were audited by other auditors whose report thereon 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 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our 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 of its discretely presented Component Unit Foundation as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2013 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 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.

Office of the Utah State Auditor

April 23, 2013

DIXIE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012. 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 Assets, 2) the Statement of Revenues, Expenses, and Changes in Net Assets, 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. Information for the University's discretely presented component unit can be found in separately audited financial statements which can be obtained directly from the Dixie State College Foundation's administrative office.

Statement of Net Assets: The Statement of Net Assets 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 assets. The information provided in the Statement of Net Assets, along with disclosures and other information contained in the Statement of Revenues, Expenses, and Changes in Net Assets; 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 assets 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.

The following table summarizes the University's assets, liabilities, and net assets at June 30, 2011 and 2012:

Condensed Statement of Net Assets

	Year Ended June 30, 2011	Year Ended June 30, 2012	Amount of Increase (Decrease)
Assets			
Current Assets	\$ 23,660,493	\$ 27,790,984	\$ 4,130,491
Capital Assets, Net	88,897,368	124,554,731	35,657,363
Other Assets	19,020,664	11,830,565	(7,190,099)
Total Assets	131,578,525	164,176,280	32,597,755
Liabilities			
Current Liabilities	6,783,335	8,477,774	1,694,439
Noncurrent Liabilities	9,479,849	9,768,031	288,182
Total Liabilities	16,263,184	18,245,805	1,982,621
Net Assets			
Invested in Capital Assets, Net of Related Debt	81,979,651	114,333,470	32,353,819
Restricted - Nonexpendable	9,558,684	9,483,342	(75,342)
Restricted - Expendable	5,940,342	5,955,319	14,977
Unrestricted	17,836,664	16,158,344	(1,678,320)
Total Net Assets	\$ 115,315,341	\$ 145,930,475	\$ 30,615,134

DIXIE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

Most increases and decreases in assets and liabilities centered on the construction of the Jeffrey R. Holland Centennial Commons Building. This single asset costing \$35,386,295 and the payments for construction, furniture, fixtures and equipment account for virtually all changes in assets and liabilities. Funds from a term endowment for the Browning Library in the amount of \$3,131,444 were used in this project and, therefore, account for decreases in investment funds (investment funds are included in other assets in the condensed statement of net assets).

In addition to the use of the Browning Library endowment funds, payments on the energy savings project (ESCO) of \$3,563,300 account for virtually all of the balance of the reductions in other assets. The ESCO project was financed with a lease-purchase agreement with PNC Equipment Finance and All American Investment Group to provide energy saving equipment to the University. The total amount of the lease is \$3,863,964 and the term is for 17 years.

Statement of Revenues, Expenses, and Changes in Net Assets: The Statement of Revenues, Expenses, and Changes in Net Assets provides information to users about the operating performance of the University and the effects of nonoperating transactions on net assets. The information in this statement, together with information in the Statement of Net Assets, 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.

The following table summarizes the University's revenues, expenses, and changes in net assets for the years ended June 30, 2011 and 2012:

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

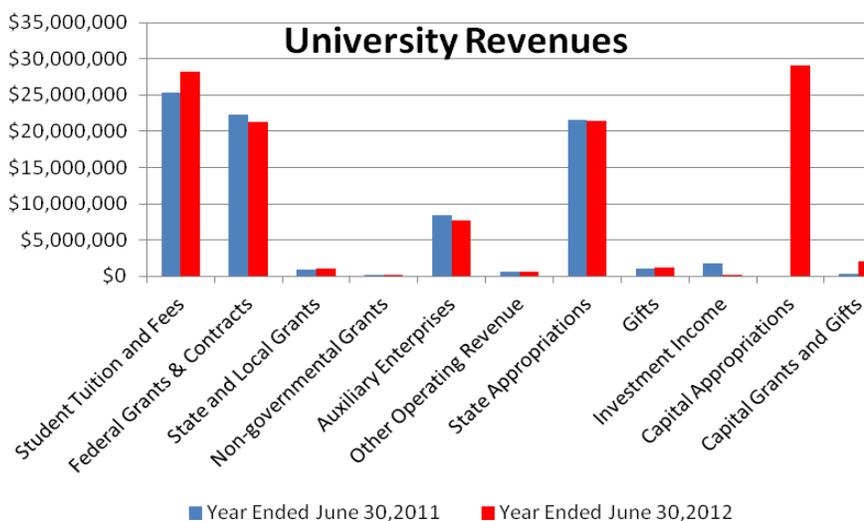
	Year Ended June 30, 2011	Year Ended June 30, 2012	Amount of Increase (Decrease)
Operating Revenues	\$ 34,497,618	\$ 36,747,141	2,249,523
Operating Expenses	78,645,212	81,681,663	3,036,451
Operating Income (Loss)	(44,147,594)	(44,934,522)	(786,928)
Nonoperating Revenues	47,431,945	44,988,786	(2,443,159)
Nonoperating Expenses	582,290	619,161	36,871
Net Nonoperating Revenues	46,849,655	44,369,625	(2,480,030)
Income (Loss) Before Other Revenues	2,702,061	(564,897)	(3,266,958)
Other Revenues	343,480	31,180,031	30,836,551
Other Expenses	-	-	-
Increase (Decrease) in Net Assets	3,045,541	30,615,134	27,569,593
Net Assets – Beginning of Year	112,269,800	115,315,341	3,045,541
Net Assets – End of Year	\$ 115,315,341	\$ 145,930,475	\$ 30,615,134

DIXIE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

For the year ended June 30, 2012, 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 sufficient to cover the operating costs of the University.

Revenues: The following table summarizes the University's revenues for the years ended June 30, 2011 and 2012:

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2012</u>	<u>Percent of Total</u>	<u>Amount of Increase (Decrease)</u>	<u>Percentage Increase (Decrease)</u>
Operating Revenues					
Student Tuition and Fees	\$ 25,375,056	\$ 28,255,154	76.89%	\$ 2,880,098	11.35%
Grants and Contracts	56,676	73,108	0.20%	16,432	28.99%
Auxiliary Enterprises	8,437,035	7,750,973	21.09%	(686,062)	-8.13%
Other Operating Revenues	628,851	667,906	1.82%	39,055	6.21%
Total Operating Revenues	\$ 34,497,618	\$ 36,747,141	100.00%	\$ 2,249,523	6.52%
Nonoperating Revenues					
State Appropriations	\$ 21,516,290	\$ 21,473,539	47.73%	\$ (42,751)	-0.20%
Federal Grants	22,242,878	21,251,312	47.24%	(991,566)	-4.46%
State and Local Grants	829,179	994,606	2.21%	165,427	19.95%
Private Grants	19,500	34,500	0.08%	15,000	76.92%
Gifts	989,934	1,114,371	2.48%	124,437	12.57%
Investment Income	1,834,164	120,458	0.27%	(1,713,706)	-93.43%
Other Nonoperating Revenues	-	-	0.00%	-	0.00%
Total Nonoperating Revenues	\$ 47,431,945	\$ 44,988,786	100.00%	\$ (2,443,159)	-5.15%
Other Revenues					
Capital Appropriations	\$ -	\$ 29,160,424	93.52%	\$ 29,160,424	100.00%
Capital Grants and Gifts	259,048	1,957,198	6.28%	1,698,150	655.53%
Additions to Permanent Endowments	84,432	62,409	0.20%	(22,023)	-26.08%
Total Other Revenues	\$ 343,480	\$ 31,180,031	100.00%	\$ 30,836,551	8977.68%



DIXIE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

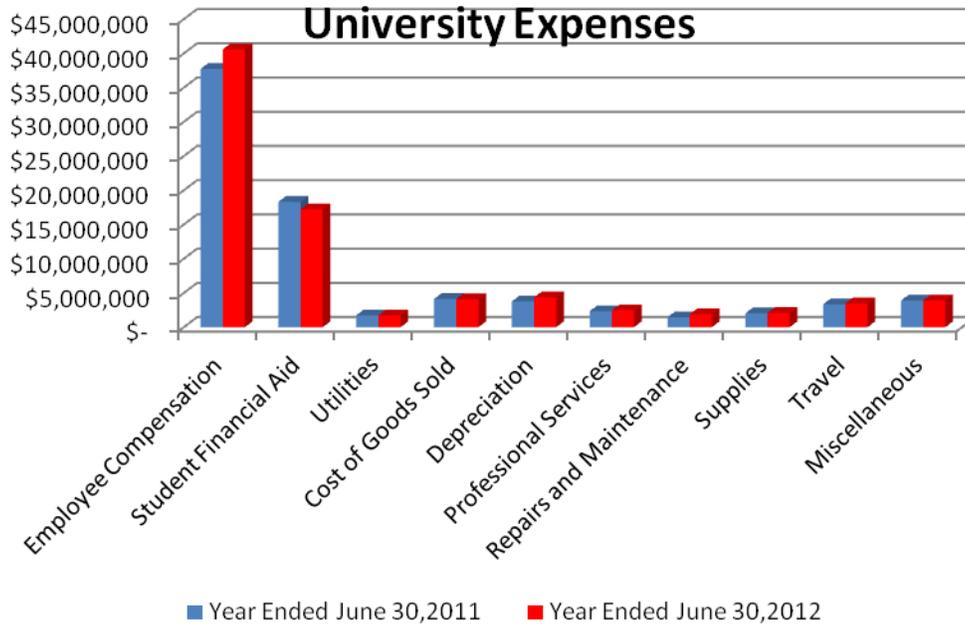
Operating revenues increased overall when compared to the prior year as shown above. This increase is primarily attributable to the student tuition and fees line item. Student tuition and fees revenue increased due to an 11.84% tuition increase and a 9.25% student fee increase together with a student enrollment increase of 2.34%. Although enrollment increased during the year, auxiliary revenues decreased as students purchased books from other vendors or rented books from the University.

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. Federal grants decreased due to the loss of federal funding for three terms during the academic year. Federal funding for students is now allowed for only two terms in the academic year. The large increase in capital appropriations is from the construction of the new Jeffrey R. Holland Centennial Commons Building completed on campus this fiscal year.

Expenses: The following table summarizes the University's expenses for the years ended June 30, 2011 and 2012:

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2012</u>	<u>Percent of Total</u>	<u>Amount of Increase (Decrease)</u>	<u>Percentage Increase (Decrease)</u>
Operating Expenses					
Salaries and Wages	\$ 28,126,671	\$ 30,423,062	37.25%	\$ 2,296,391	8.16%
Employee Benefits	9,604,596	10,152,711	12.43%	548,115	5.71%
Student Financial Aid	18,308,354	17,205,483	21.06%	(1,102,871)	-6.02%
Utilities	1,722,997	1,699,509	2.08%	(23,488)	-1.36%
Cost of Goods Sold	4,114,052	4,084,287	5.00%	(29,765)	-0.72%
Depreciation	3,757,602	4,341,944	5.32%	584,342	15.55%
Other Operating Expenses					
Advertising, Awards, Luncheons, Publications	316,967	323,452	0.40%	6,485	2.05%
Bad Debt Expense	503,388	497,852	0.61%	(5,536)	-1.10%
Capital and Equipment Expense	1,527,311	1,109,393	1.36%	(417,918)	-27.36%
Licenses, Fees, Taxes and Insurance	628,356	601,576	0.74%	(26,780)	-4.26%
Office Supplies	232,406	498,110	0.61%	265,704	114.33%
Professional Services	2,326,809	2,439,225	2.99%	112,416	4.83%
Rental of Equipment and Space	350,927	544,818	0.67%	193,891	55.25%
Repairs and Maintenance	1,447,612	1,888,069	2.31%	440,457	30.43%
Supplies	2,019,268	2,085,415	2.55%	66,147	3.28%
Telephone, Postage, and Freight	321,285	321,565	0.39%	280	0.09%
Travel	3,336,611	3,465,192	4.24%	128,581	3.85%
Total Other Operating Expense	<u>13,010,940</u>	<u>13,774,667</u>	<u>16.86%</u>	<u>763,727</u>	<u>5.87%</u>
Total Operating Expenses	<u>\$ 78,645,212</u>	<u>\$ 81,681,663</u>	<u>100.00%</u>	<u>\$ 3,036,451</u>	<u>3.86%</u>
Nonoperating Expenses					
Interest on Capital Asset Related Debt	\$ 341,423	\$ 460,739	74.41%	\$ 119,316	34.95%
Other	240,867	158,422	25.59%	(82,445)	-34.23%
Total Nonoperating Expenses	<u>\$ 582,290</u>	<u>\$ 619,161</u>	<u>100.00%</u>	<u>\$ 36,871</u>	<u>6.33%</u>

DIXIE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012



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 the student enrollment, tuition, and student fee increases noted above in the revenue section. As a result, additional increases were required in operating, salary, wage, and benefit expenses.

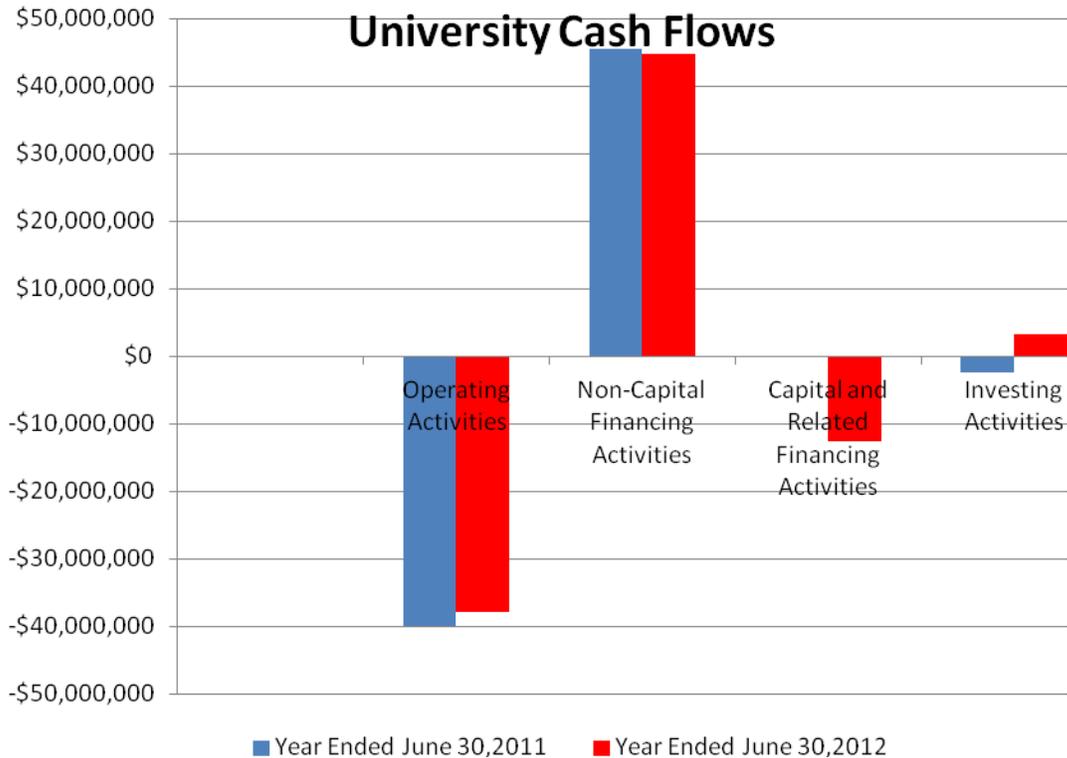
Statement of Cash Flows: The Statement of Cash Flows provides information about the cash receipts and cash payments of the University during the fiscal year. When used with related disclosures and information in other financial statements, the Statement of Cash Flows should help financial statement report 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.

DIXIE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

The following table and graph summarizes the University's cash flows for the years ended June 30, 2011 and 2012:

Condensed Statement of Cash Flows

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2012</u>	<u>Amount of Increase (Decrease)</u>
Cash Provided (Used) by:			
Operating Activities	\$ (39,931,474)	\$ (37,697,126)	\$ 2,234,348
Noncapital Financing Activities	45,410,729	45,123,734	(286,995)
Capital and Related Financing Activities	(211,469)	(12,679,826)	(12,468,357)
Investing Activities	<u>(2,378,277)</u>	<u>3,185,170</u>	<u>5,563,447</u>
Net Change in Cash	<u>2,889,509</u>	<u>(2,068,048)</u>	<u>(4,957,557)</u>
Cash and Cash Equivalents – Beginning of Year	22,196,833	25,086,342	2,889,509
Cash and Cash Equivalents – End of Year	<u>\$ 25,086,342</u>	<u>\$ 23,018,294</u>	<u>\$ (2,068,048)</u>



The University's overall liquidity decreased from the previous year. This was due to the use of funds in the construction of the Jeffrey R. Holland Centennial Commons Building. These funds were accumulated in prior years and then used in fiscal year 2012. A comparison with the cash position of fiscal year 2010 (\$22,196,833) shows that there is only a small increase (.9%) between fiscal year 2010 and fiscal year 2012. Major sources of operating funds were tuition and fees and auxiliary enterprises revenue. Cash provided by noncapital financing activities increased because of increased grant income. The cash for capital and related financing

DIXIE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

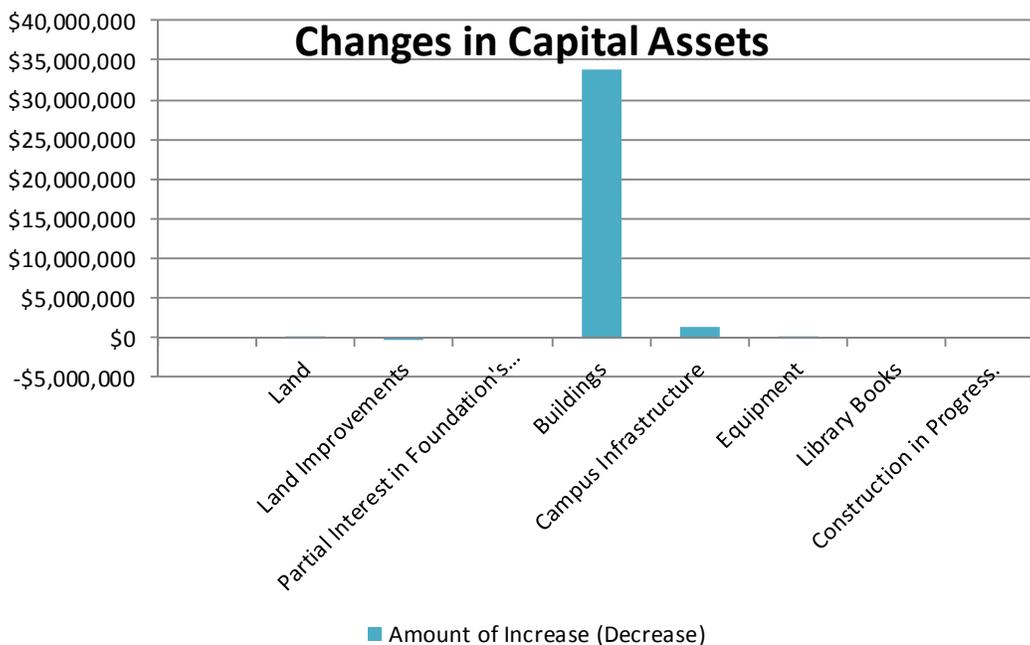
activities decreased because of the acquisition of the Jeffrey R. Holland Centennial Commons Building. The increase in cash provided from investing activities is a result of the investment activity for the year which showed a small increase over the prior year.

Capital Assets and Debt Administration

Capital Assets: Investment in capital assets includes land, a partial interest in the Foundation's real property, land improvements, buildings, equipment, library books, and construction in progress. The major addition is in buildings and is the result of the completion of the Jeffrey R. Holland Centennial Commons Building. An additional increase in campus infrastructure was the result of the completion of the ESCO project on campus. Additional information about the University's capital assets can be found in Note 5 to the financial statements.

The following table summarizes the University's capital assets at June 30, 2011 and 2012:

Capital Assets, Net	Year Ended June 30, 2011	Year Ended June 30, 2012	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Land and Permanent Easements	\$ 11,179,487	\$ 11,459,487	\$ 280,000	2.50%
Land Improvements	5,416,137	5,191,073	(225,064)	-4.16%
Partial Interest in Foundation's Real Property	422,785	422,785	-	0.00%
Buildings	64,198,306	97,912,324	33,714,018	52.52%
Campus Infrastructure	-	1,333,285	1,333,285	100.00%
Machinery and Equipment	4,324,934	4,564,194	239,260	5.53%
Art, Literature, and Artifacts	1,190,462	1,167,178	(23,284)	-1.96%
Construction in Progress	2,165,258	2,504,405	339,147	15.66%
Total Capital Assets, Net	\$ 88,897,369	\$ 124,554,731	\$ 35,657,362	40.11%



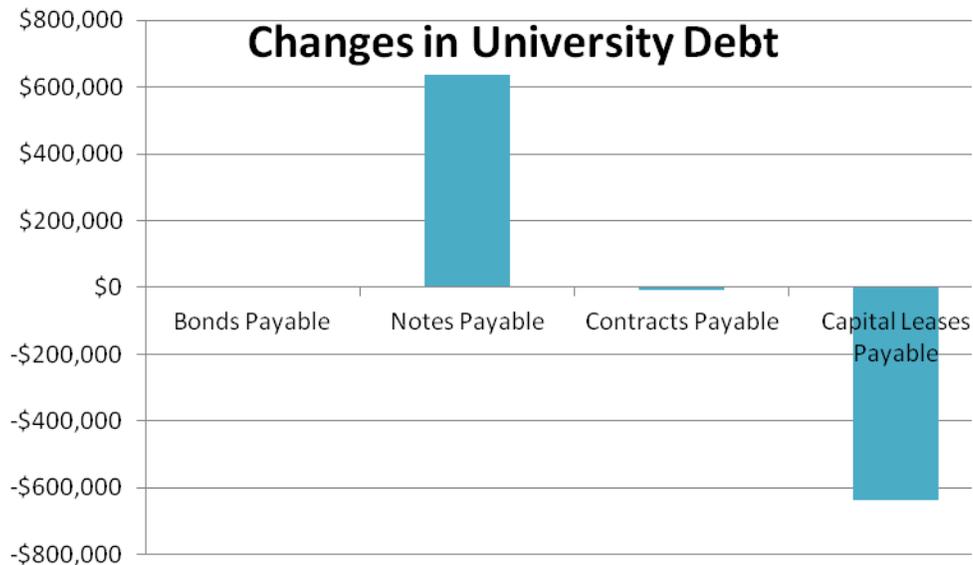
DIXIE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

University Debt:

University debt remained virtually unchanged for fiscal year 2012. This was due to the addition of a note payable for the Morgan Apartments and the retirement of debt thru the normal payment cycle of Capital Leases. Additional information related to the University's liabilities is presented in Notes 6, 7, and 8 to the financial statements.

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2012</u>	<u>Amount of Increase (Decrease)</u>	<u>Percentage of Increase (Decrease)</u>
University Debt				
Bonds Payable	\$ -	\$ -	\$ -	0.00%
Notes Payable	1,173,158	1,809,585	636,427	54.25%
Contracts Payable	11,229	5,104	(6,125)	-54.55%
Capital Leases Payable	8,829,430	8,194,128	(635,302)	-7.20%
Total Debt	<u>\$ 10,013,817</u>	<u>\$ 10,008,817</u>	<u>\$ (5,000)</u>	<u>-0.05%</u>

The following table and graph summarizes outstanding University debt at June 30, 2011 and 2012:



Economic Outlook

Utah's economy is being affected, like the other states in the nation, from the turmoil that occurred in the financial markets. Due to this and the ability of the school to offer bachelor's degrees, Dixie State 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 enrollments. 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 enrollments. Despite these

DIXIE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

issues, the change to a University status and 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.

Requests for Information

This financial report is designed to provide a general overview of Dixie State 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 ASSETS

JUNE 30, 2012

	Primary Institution	Component Unit Foundation
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	\$ 21,635,999	\$ 501,010
Investments (Note 2)	-	\$ 2,149,849
Accounts and Notes Receivable, Net (Note 3)	901,582	41,904
Due from Primary Government/Related Parties (Note 3)	3,744,512	-
Inventories (Note 4)	1,185,877	-
Student Loans Receivable, Net (Note 3)	313,471	-
Notes and Mortgages Receivable, Net	-	-
Prepaid Expenses	9,543	10,000
Total Current Assets	<u>27,790,984</u>	<u>2,702,763</u>
Noncurrent Assets		
Restricted Cash and Cash Equivalents (Note 2)	1,382,295	592,925
Investments (Note 2)	8,838,058	7,965,387
Accounts, Notes, and Pledges Receivable, Net (Note 3)	96,845	265,227
Due from Primary Government/Related Parties (Note 3)	1,333	-
Student Loans Receivable, Net (Note 3)	1,512,034	-
Investments in Real Estate	-	-
Capital Assets, Net (Note 5)	124,554,731	5,224,632
Total Noncurrent Assets	<u>136,385,296</u>	<u>14,048,171</u>
Total Assets	<u>164,176,280</u>	<u>16,750,934</u>
LIABILITIES		
Current Liabilities		
Accounts Payable (Note 8)	2,683,456	17,015
Due to Primary Government/Related Parties	2,629,884	1,066
Accrued Liabilities (Note 8)	873,119	-
Compensated Absences and Termination Benefits (Notes 8 through 10)	657,486	-
Deposits	200,881	-
Deferred Revenue	749,171	-
Contracts and Capital Leases Payable (Notes 6 and 8)	683,777	379,081
Total Current Liabilities	<u>8,477,774</u>	<u>397,162</u>
Noncurrent Liabilities		
Compensated Absences and Termination Benefits (Notes 8 through 10)	442,991	-
Contracts and Capital Leases Payable (Notes 6 and 8)	9,325,040	6,201,965
Long-term Liabilities	-	-
Total Noncurrent Liabilities	<u>9,768,031</u>	<u>6,201,965</u>
Total Liabilities	<u>18,245,805</u>	<u>6,599,127</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	114,333,470	-
Restricted for		
Nonexpendable		
Scholarships and Fellowships	9,178,807	-
Other	304,535	-
Foundation	-	7,965,387
Expendable		
Scholarships and Fellowships	687,187	-
Loans	2,035,218	-
Capital Projects	1,311,623	-
Debt Service	356,041	-
Other	1,565,250	-
Foundation	-	1,997,139
Funds Held for Others	-	-
Unrestricted	16,158,344	189,281
Total Net Assets	<u>\$ 145,930,475</u>	<u>\$ 10,151,807</u>

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

DIXIE STATE UNIVERSITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2012

	Primary Institution	Component Unit Foundation
OPERATING REVENUES		
Student Tuition and Fees (Note 1)	\$ 28,255,154	\$ -
Federal Grants and Contracts	47,951	-
Auxiliary Enterprises (Note 1)	7,750,973	434,483
State and Local Grants and Contracts	25,157	-
Nongovernmental Grants and Contracts	-	-
Athletics	-	-
Avenna Center	-	-
Bookstore	-	-
Food Service	-	-
Housing	-	-
Foundation Contributions Received	-	1,990,406
Other	667,906	1,563
Total Operating Revenues	36,747,141	2,426,452
OPERATING EXPENSES		
Salaries and Wages	30,423,062	-
Employee Benefits	10,152,711	-
Student Financial Aid	17,205,483	-
Donation to the College	-	1,360,700
Utilities	1,699,509	-
Cost of Goods Sold	4,084,287	-
Depreciation	4,341,944	-
Other	13,774,667	699,840
Total Operating Expenses	81,681,663	2,060,540
Operating Income (Loss)	(44,934,522)	365,912
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	21,473,539	-
Federal Grants	21,251,312	-
State Grants	924,606	-
Local Grants	70,000	-
Private Grants	34,500	-
Gifts	1,114,371	-
Investment Income	120,458	(162,159)
Insurance Proceeds	-	-
Interest on Capital Asset Related Debt	(460,739)	-
Other	(158,422)	(602,787)
Net Nonoperating Revenues (Expenses)	44,369,625	(764,946)
Income (Loss) Before Other Revenues	(564,897)	(399,034)
OTHER REVENUES (EXPENSES)		
Capital Appropriations	29,160,424	-
Capital Grants and Gifts	1,957,198	-
Additions to Permanent Endowments	62,409	990
Other	-	-
Total Other Revenues (Expenses)	31,180,031	990
Increase (Decrease) in Net Assets	30,615,134	(398,044)
Net Assets – Beginning of Year	115,315,341	11,083,091
Prior Period Adjustment	-	(533,240)
Net Assets – End of Year	\$ 145,930,475	\$ 10,151,807

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

DIXIE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Primary Institution</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Tuition and Fees	\$ 28,328,275
Receipts from Grants and Contracts	73,108
Receipts from Auxiliary Enterprises	8,387,126
Payments for Employee Services and Benefits	(39,977,738)
Payments to Vendors and Suppliers	(17,831,619)
Payments for Student Financial Aid	(17,205,483)
Receipt of Student Loan Proceeds	29,481,336
Loans Issued to Students	(29,405,620)
Collection of Loans from Students	270,627
Other Receipts (Payments)	<u>182,862</u>
Net Cash Provided (Used) by Operating Activities	<u>(37,697,126)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	21,473,539
Receipts from State Grants	924,606
Receipts from Federal Student Financial Aid	21,251,312
Receipts from Other Grants	297,081
Receipts from Gifts and Endowments	1,000,926
Receipts from William D. Ford National Direct Student Loan	207,608
Payments to William D. Ford National Direct Student Loan	<u>(31,338)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>45,123,734</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from Capital Grants	1,874,007
Proceeds from Capital Debt Issued	766,332
Proceeds from Insurance on Capital Assets	8,965
Acquisition and Construction of Capital Assets	(14,148,971)
Principal Paid on Capital Debt and Leases	(771,331)
Interest Paid on Capital Debt and Leases	<u>(408,828)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(12,679,826)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	3,356,295
Investment Income	555,384
Purchase of Investments and Related Fees	<u>(726,509)</u>
Net Cash Provided (Used) by Investing Activities	<u>3,185,170</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,068,048)
Cash and Cash Equivalents – Beginning of Year	<u>25,086,342</u>
Cash and Cash Equivalents – End of Year	<u>\$ 23,018,294</u>

(continued)

DIXIE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

(continued)

	<u>Primary Institution</u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (44,934,522)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	4,341,944
Provision for Uncollectible Loans and Writeoffs	56,942
Miscellaneous Nonoperating Income (Expense)	8,467
Changes in Assets and Liabilities:	
Receivables, Net	519,351
Inventories	72,808
Prepaid Items	11,897
Notes Receivable, Net	98,993
Accounts Payable and Accrued Liabilities	997,981
Due to Primary Government	1,133,501
Due to State of Utah Component Units	-
Unearned Revenue	(230,632)
Funds Held for Others	174,395
Pollution Remediation Payable	-
Compensated Absences	51,749
Total Adjustments	<u>7,237,396</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (37,697,126)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Completed Construction Project Transferred from the State of Utah	\$ 29,160,424
Assets Acquired Through a Gift	32,663
Change in Fair Value of Investments	(456,158)
Capital Asset Write-Offs	<u>363,908</u>
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 29,100,837</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, 2012

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 will be 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

DIXIE STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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

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

The Foundation is a private non-profit organization that reports under FASB standards, including FASB Statement 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 in the University's financial reporting entity for these differences.

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 financial 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

DIXIE STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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. Other capital assets are 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 Assets and as a component of salaries and benefit expense in the Statement of Revenues, Expenses, and Changes in Net Assets. 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.

Deferred Revenue – Deferred 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 Assets – The University’s net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the University’s total investment in capital assets, net of outstanding debt obligations related to those 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 invested in capital assets, net of related debt.

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

DIXIE STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Restricted net assets, nonexpendable – Nonexpendable restricted net assets consist 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.

Unrestricted net assets – Unrestricted net assets represent 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 Assets. 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 \$9,121,334 against student tuition and fees and an allowance of \$47,632 against auxiliary enterprises revenue.

DIXIE STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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).

Foundation’s Prior Period Adjustment - In 2012 it was determined that the charity annuity liabilities should be recalculated each year to more accurately represent the Foundation’s liability. A prior period adjustment has been used to represent the charitable annuity liability balance at June 30, 2011 as noted below:

June 30, 2011 Charitable Annuity Liability	\$ 1,032,960
Prior Period Adjustment	<u>533,240</u>
June 30, 2011 Charitable Annuity Liability as Restated	<u><u>\$ 1,566,200</u></u>

(See Dixie State College Foundation audited financial statements for further explanation of these adjustments)

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).

DIXIE STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012, \$1,282,655 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.

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, one of which must be Moody's Investors Services or Standard & Poor's; 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 (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.

DIXIE STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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.

As of June 30, 2012, 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	\$ 21,611,078	\$ 21,611,078	\$ -	\$ -	\$ -
Money Market Mutual Funds	1,066,063	1,066,063	-	-	-
U.S. Treasuries	557,315	-	20,327	213,916	323,072
Mutual Funds, Bonds, and Corporation Debt	478,741	-	410,390	68,351	-
Totals	<u>\$ 23,713,197</u>	<u>\$ 22,677,141</u>	<u>\$ 430,717</u>	<u>\$ 282,267</u>	<u>\$ 323,072</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 – 13 months or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two 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, 2012

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, 2012, the University had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AA	BB	Unrated	Not Applicable
Utah Public Treasurers' Investment Fund	\$21,611,078	\$ -	\$ -	\$ 21,611,078	\$ -
Money Market Mutual Funds	1,066,063	-	-	1,066,063	-
U.S. Treasuries	557,315			-	557,315
Mutual Funds, Bonds, and Corporate Debt	478,741	68,591	271,770	138,380	-
Totals	<u>\$23,713,197</u>	<u>\$68,591</u>	<u>\$ 271,770</u>	<u>\$ 22,815,521</u>	<u>\$ 557,315</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, 2012, the University had \$557,314 in U.S. Treasuries 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, 2012

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, 2012 was \$732,008. The net appreciation is a component of restricted nonexpendable net assets.

Cash and Cash Equivalents – Foundation

At June 30, 2012, the Foundation had the following cash and cash equivalents:

	<u>Balance</u>
Cash on Hand	\$ 62
Cash in Bank	345,836
Certificate of Deposit	55,000
Money Market Funds (Held by Equity Managers)	<u>100,112</u>
Total	<u>\$ 501,010</u>

Cash in Bank is insured by the Federal Deposit Insurance Corporation (FDIC). 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 \$10,115,236 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, 2012 was \$368,982 of which \$763,600 is the current year's unrealized loss.

DIXIE STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

The amortized cost and estimated market value of investments at June 30, 2012 are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
Alternative Funds	\$ 516,613	\$ -	\$ (47,748)	\$ 468,865
Fixed Income Bond Funds	1,757,932	47,901	-	1,805,833
Obligations of U.S. Government - Corporations and Agencies	657,280	26,968	-	684,248
Corporate Securities – Domestic	5,178,329	371,406	-	5,549,735
Corporate Securities – International	1,714,842	-	(29,545)	1,685,297
Total	<u>\$ 9,824,996</u>	<u>446,275</u>	<u>\$ (77,293)</u>	<u>10,193,978</u>
Less Losses		<u>(77,293)</u>		
Total Cumulative Net Gain/(Loss)		<u>\$ 368,982</u>		
Less Assets Held in Trust Investments				<u>(78,742)</u>
				<u>\$ 10,115,236</u>
Cumulative Net Unrealized Gain/(Loss) 6/30/11		\$ 1,163,466		
Changes from Contributions, Realized Gains and Losses, and Changes in Assets Held in Trust Unrealized Gain (Loss)		(30,884)		
2012 Unrealized Gain (Loss)		<u>(763,600)</u>		
Cumulative Net Unrealized Gain (Loss) 6/30/12		<u>\$ 368,982</u>		

NOTE 3. RECEIVABLES

Receivables at June 30, 2012 consisted of the following:

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2012</u>	<u>Increase (Decrease) in Receivables</u>	<u>Year Ended June 30, 2012 (Current Portion)</u>
Student Loans	\$ 2,372,476	\$ 2,221,608	\$ (150,868)	\$ 313,471
Student Tuition and Fees	922,475	1,032,294	109,819	485,867
Auxiliary Enterprises and Other	599,551	673,202	73,651	437,537
Contracts and Grants	413,008	208,125	(204,883)	208,125
Notes Receivable	70,000	-	(70,000)	-
Due from primary Government/Related Parties	285,279	3,745,845	3,460,566	3,744,512
Total Receivables	4,662,789	7,881,074	3,218,285	5,189,512
Less Allowances for Bad Debts	<u>(850,760)</u>	<u>(1,311,297)</u>	<u>(460,537)</u>	<u>(229,947)</u>
Total Receivables, Net	<u>\$ 3,812,029</u>	<u>\$ 6,569,777</u>	<u>\$ 2,757,748</u>	<u>\$ 4,959,565</u>

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NOTE 4. INVENTORIES

Asset inventories at June 30, 2012 consisted of the following:

	Year Ended June 30, 2011	Year Ended June 30, 2012	Increase (Decrease)
Bookstore	\$ 991,800	\$ 872,542	\$ (119,258)
Dining Services	97,027	86,551	(10,476)
IT Services	135,456	176,298	40,842
Fuel	34,402	50,486	16,084
Total Inventories	\$ 1,258,685	\$ 1,185,877	\$ (72,808)

NOTE 5. CAPITAL ASSETS

Property, plant and equipment at June 30, 2012 are summarized as follows:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Capital Assets, Non-depreciable:				
Land and Permanent Easements	\$ 11,179,487	\$ 280,000	\$ -	\$ 11,459,487
Art, Literature, and Artifacts	-	-	-	-
Construction in Progress	2,165,258	2,405,377	2,066,230	2,504,405
Computer and Software Development	-	-	-	-
Patents in Development	-	-	-	-
Partial Interest in Foundation's Real Property	422,785	-	-	422,785
Total Capital Assets, Non-depreciable	13,767,530	2,685,377	2,066,230	14,386,677
Capital Asset, Depreciable:				
Buildings	96,449,022	36,647,564	62,804	133,033,782
Machinery and Equipment	10,183,307	1,273,859	201,713	11,255,453
Art, Literature, and Artifacts	2,132,726	92,208	95,633	2,129,301
Land Improvements	10,151,909	92,840	-	10,244,749
Computer Software	-	-	-	-
Machinery and Equipment (Gifts in Kind)	-	-	-	-
Campus Infrastructure	-	1,346,753	-	1,346,753
Total Capital Assets, Depreciable	118,916,964	39,453,224	360,150	158,010,038
Less Accumulated Depreciation for:				
Buildings	32,250,716	2,926,925	56,183	35,121,458
Machinery and Equipment	5,858,373	1,035,642	202,756	6,691,259
Art, Literature, and Artifacts	942,264	104,158	84,299	962,123
Land Improvements	4,735,772	317,904	-	5,053,676
Computer Software	-	-	-	-
Patents	-	-	-	-
Campus Infrastructure	-	13,468	-	13,468
Total Depreciation	43,787,125	4,398,097	343,238	47,841,984
Total Capital Assets, Depreciable, Net	75,129,839	35,055,127	16,912	110,168,054
Total Capital Assets, Net	\$ 88,897,369	\$ 37,740,504	\$ 2,083,142	\$ 124,554,731

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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 13.

At June 30, 2012, the University had outstanding commitments for the construction and remodeling of University buildings of approximately \$2,829,492.

Fixed Assets of the Foundation at June 30, 2012 consisted of the following:

	Balance June 30, 2011	Additions	Retirements/ Adjustments	Balance June 30, 2012
Land	\$ 1,257,220	\$ -	\$ 1,074,106	\$ 2,331,326
Building	4,099,580	-	(1,074,106)	3,025,474
Building Improvements	143,346	-	-	143,346
Total	5,500,146	-	-	5,500,146
Accumulated Depreciation	(205,493)	(79,221)	-	(284,714)
Capital Assets, Net	<u>\$ 5,294,653</u>	<u>\$ (79,221)</u>	<u>\$ -</u>	<u>\$ 5,215,432</u>
Collectible Art	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 6. 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 \$1,286,219 and \$397,555, 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. Building assets and their depreciation amounts are \$9,688,057 and \$3,066,421, respectively. The value of construction in progress assets currently financed under capital lease is \$1,820,514. The University has also entered into contracts to acquire property. Contracts and capital leases payable at June 30, 2012 are summarized as follows:

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	<u>Lease Term</u>	<u>Interest Rate</u>	<u>Balance June 30, 2012</u>
Contracts and Capital Leases Payable			
Charitable Annuity	1998-2013	0.00%	\$ 5,103
Chase Equipment Finance, Inc.	2010-2016	2.72%	232,178
Canon Financial Services, Inc.	2011-2014	11.34%	5,420
Dell Computer Corp	2009-2012	7.60%	-
Revco Leasing	2009-2015	13.89% - 22.27%	13,970
State Bank of Southern Utah	2011-2031	4.50%	881,249
US Bank	2009-2027	4.50% - 16.15%	3,650,934
Village Bank	2007-2025	4.00% - 4.75%	928,337
Wells Fargo	2006-2020	4.60% - 7.25%	426,626
Zions Bank	2006-2023	3.60% - 4.65%	3,865,000
Total Contracts and Capital Leases Payable			<u>\$ 10,008,817</u>

Future principal and interest payments are summarized as follows:

<u>Year Ending June 30</u>	<u>Capital Leases</u>	<u>Contracts and Notes</u>	<u>Total Principal</u>	<u>Total Interest</u>
2013	\$ 531,178	\$ 152,599	\$ 683,777	\$ 438,985
2014	560,481	130,698	691,179	410,078
2015	575,264	136,719	711,983	379,762
2016	604,555	237,749	842,304	348,356
2017	638,983	290,148	929,131	313,203
2018-2022	3,225,154	306,973	3,532,127	1,078,285
2023-2027	1,689,643	302,316	1,991,959	406,260
2028-2032	368,869	257,488	626,357	52,918
Totals	<u>\$ 8,194,127</u>	<u>\$ 1,814,690</u>	<u>\$ 10,008,817</u>	<u>\$ 3,427,847</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 Assets for the year of contribution.

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

Year Ending June 30	Principal	Interest	Totals
2013	\$ 216,987	\$ 16,273	\$ 233,260
2014	217,152	16,108	233,260
2015	203,512	15,498	219,010
2016	86,902	11,658	98,560
2017	87,946	10,614	98,560
Thereafter	836,453	58,432	894,885
Totals	\$ 1,648,952	\$ 128,583	\$ 1,777,535

The Foundation had the following notes payable at June 30, 2012:

A note payable with a current portion of \$119,000 and a long-term portion of \$3,394,280, bears interest at 3.25%, \$19,285 is payable monthly and 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 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 \$43,094 and a long-term portion of \$1,270,253, 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 Foundation's purchased property. The Foundation believes that the State of Utah will fund the Foundation for the cost of the property.

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

Year Ending June 30	Principal	Interest	Totals
2013	\$ 162,094	\$ 177,038	\$ 339,132
2014	3,437,372	162,023	3,599,395
2015	47,616	60,166	107,782
2016	1,179,545	58,867	1,238,412
2017	-	-	-
Thereafter	-	-	-
Totals	\$ 4,826,627	\$ 458,094	\$ 5,284,721

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

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trusts to provide for all future debt service payments on the bonds. The principal balance of the University's defeased bonds at June 30, 2012 is as follows:

	<u>Redemption Date</u>	<u>Principal Balance</u>
Defeased Bonds		
Series 2006, 2006-2026, \$1,420,000	05/01/2016	\$ 1,420,000
Total Defeased Bonds		<u>\$ 1,420,000</u>

NOTE 8. LIABILITIES

Accounts payable balances for the year ended June 30, 2012 were as follows:

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2012</u>	<u>Increase (Decrease)</u>
Accounts Payable			
Suppliers Payable	\$ 2,011,049	\$ 2,462,744	\$ 451,695
Accrued Interest	110,591	162,502	51,911
Student Refunds	73,225	58,210	(15,015)
Total Accounts Payable	<u>\$ 2,194,865</u>	<u>\$ 2,683,456</u>	<u>\$ 488,591</u>

Long-term liability activity for the year ended June 30, 2012 was as follows:

<u>Description</u>	<u>Year Ended June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Year Ended June 30, 2012</u>	<u>Current Portion</u>
Contracts and Capital Leases Payable					
Bonds Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Notes Payable	1,173,158	760,000	123,573	1,809,585	147,495
Contracts Payable	11,229	-	6,125	5,104	5,104
Capital Leases Payable	8,829,430	6,332	641,634	8,194,128	531,178
Total Contracts and Capital Leases Payable	<u>10,013,817</u>	<u>766,332</u>	<u>771,332</u>	<u>10,008,817</u>	<u>683,777</u>
Other Liabilities					
Compensated Absences	969,284	667,557	568,589	1,068,252	640,754
Early Retirement Benefits	79,444	34,274	81,493	32,225	16,732
Total Other Liabilities	<u>1,048,728</u>	<u>701,831</u>	<u>650,082</u>	<u>1,100,477</u>	<u>657,486</u>
Total Current Portion of Noncurrent Liabilities					<u>\$ 1,341,263</u>
Total Long-term Liabilities	11,062,545	1,468,163	1,421,414	11,109,294	
Less: Current Portion	1,198,248	1,341,263	1,198,248	1,341,263	
Total Noncurrent Liabilities	<u>\$ 9,864,297</u>	<u>\$ 126,900</u>	<u>\$ 223,166</u>	<u>\$ 9,768,031</u>	

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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 the 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 12.37% of eligible annual covered salary. In the State and School Contributory Retirement System Tier 2 Plan, the University is required to contribute 12.74%. In the State and School Noncontributory Retirement System, the University is required to contribute 16.86% of eligible annual covered salary. In the Public Safety Noncontributory System, the University is required to contribute 34.12% 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

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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, 2010</u>	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2012</u>
Retirement Contributions			
State School-Contributory Retirement System	\$ 14,300	\$ 16,768	\$ 37,950
State School-Noncontributory Retirement System	714,126	812,533	881,729
Public Safety Noncontributory System	59,032	62,557	68,166
TIAA-CREF Defined Contribution Retirement Plan	1,926,957	2,069,762	2,294,027
401(k) Plan Employer Contributions	75,472	74,979	78,905
401(k) Plan Employee Contributions	135,341	120,166	127,946
Total Retirement Contributions	<u>\$ 2,925,228</u>	<u>\$ 3,156,765</u>	<u>\$ 3,488,723</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 2012, 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, 2012, 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, 2012, the stipend and benefits expense for the early retirement program totaled \$128,604. The early retirement liability is calculated using a 5% discount rate and a 3% inflation factor for salary and insurance premiums.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11. FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others are neither in the possession of, nor under the management of, the University. The University is the beneficiary of and annually receives income from these funds held in trust by other trustees. The fair value of funds held in trust at June 30, 2012 was \$534,708.

NOTE 12. 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 13. 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 \$21,600. This amount may change in the future depending upon the number of buildings the University rents from the Foundation. During fiscal year 2012, the University had rental expense for these two properties in the amount of \$240,529. 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.

In fiscal year 2009, the University entered into an agreement with Dixie Applied Technology College (DXATC) and the Foundation for improvements to the University Plaza. The University paid \$377,169 for the cost of the improvements which included \$113,396 for building renovations and \$263,773 for equipment and furniture. DXATC agreed to pay for the cost of the improvements in three years of monthly payments to the Foundation, who in turn agreed to pass on the payments to the University. Once the payments are complete, the equipment and furniture will belong to DXATC and the building renovations will be the property of the Foundation. All payments were completed by June 30, 2012.

In fiscal year 2010, the University entered into another similar agreement with DXATC and the Foundation for improvements to the University Plaza. The University paid \$24,000 for the cost of the improvements for building renovations. DXATC agreed to pay for the cost of the improvements in three years of monthly payments to the Foundation, who in turn agreed to pass on the payments to the University. Once the payments are complete,

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the building renovations will be the property of the Foundation. In 2011, the University extended the agreement through August of 2012. At June 30, 2012, \$1,667 remained to be paid on this agreement.

NOTE 14. CONTINGENT LIABILITIES

As mentioned above in Note 13, 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 equals the approximate 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. Any additional cash shortfalls related to these properties are not expected to be significant nor estimable at this time.

NOTE 15. SUBSEQUENT EVENTS

The University received legislative approval to be classified as a University on February 16, 2013. The new status allows the school to offer more bachelors programs as well as masters programs.

The University refinanced the note on property located at 446 South 700 East, St. George, Utah, in July of 2012. The refinance extends the loan until 2017.

The University completed the Snow Science Center in the spring of 2013. This center was made possible by a donation from the Snow family.

NOTE 16. FUTURE CHANGES IN ACCOUNTING STANDARDS

The governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Outflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The requirements of these Statements are effective for fiscal years 2013 and 2014, respectively. 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. The requirements of these statements may require restating of beginning net assets and fund balances. The University

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is not planning to early implement these Statements, and has made no estimation of the effect these Statements will have on the financial statements.