

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Utah Valley State College)**

**FINANCIAL STATEMENTS**  
**AND REPORT IN ACCORDANCE WITH**  
***GOVERNMENT AUDITING STANDARDS***

Years Ended June 30, 2006 and 2005

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Utah Valley State College Foundation, Inc.

We have audited the accompanying statements of financial position of Utah Valley State College Foundation, Inc. (a nonprofit organization and a component unit of Utah Valley State College) as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Utah Valley State College Foundation, Inc.'s, management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Utah Valley State College Foundation, Inc., as of June 30, 2006 and 2005, and the results of its activities and its cash flows for the years 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 a report dated August 8, 2006, on our consideration of Utah Valley State College Foundation, Inc.'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 read in conjunction with this report in considering the results of our audits.

*Squire & Company, PC*

August 8, 2006

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Utah Valley State College)**  
**STATEMENTS OF FINANCIAL POSITION**

June 30, 2006 and 2005

	2006	2005
<b>Assets:</b>		
Cash and cash equivalents	\$ 939,450	\$ 220,695
Investments	15,231,040	14,079,400
Cash value of life insurance	15,813	15,073
Pledges receivable, net of allowance for uncollectible pledges of \$126,830 and \$3,141 at June 30, 2006 and 2005, respectively	340,548	530,536
Other assets	34,300	34,300
Note receivable	-	35,926
Rental income property, net of accumulated depreciation of \$816,846 and \$685,238 at June 30, 2006 and 2005, respectively	4,666,833	4,798,441
Land	4,653,600	4,478,600
Contributions receivable from charitable remainder unitrusts	<u>6,328,476</u>	<u>5,849,484</u>
Total assets	<u>\$ 32,210,060</u>	<u>\$ 30,042,455</u>
<b>Liabilities:</b>		
Notes payable	\$ 1,504,487	\$ 1,639,172
Deferred annuity payments	692,035	740,269
Prepaid rental income	<u>502,183</u>	<u>569,142</u>
Total liabilities	2,698,705	2,948,583
<b>Net Assets:</b>		
Unrestricted	287,009	373,099
Temporarily restricted	20,058,965	18,972,449
Permanently restricted	<u>9,165,381</u>	<u>7,748,324</u>
Total net assets	<u>29,511,355</u>	<u>27,093,872</u>
Total liabilities and net assets	<u>\$ 32,210,060</u>	<u>\$ 30,042,455</u>

The accompanying notes are an integral part of these statements.

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Utah Valley State College)**  
**STATEMENTS OF ACTIVITIES**

Years Ended June 30, 2006 and 2005

	2006	2005
<b>Unrestricted Net Assets:</b>		
Revenue and support:		
Contributions	\$ 45,942	\$ 92,016
Net assets released from restrictions	2,258,871	2,458,960
Investment income	-	5,239
Total unrestricted revenue and support	<u>2,304,813</u>	<u>2,556,215</u>
Expenses:		
Program services:		
Scholarships	463,016	542,940
Departments:		
Transfers of donated in-kind materials and equipment	324,165	489,559
Academic support	997,931	1,060,445
Annuity costs	68,167	67,424
Wolverine Club	153,660	252,269
Supporting services:		
Institutional enhancement	24,237	46,323
General administration	744,597	512,385
Total expenses	<u>2,775,773</u>	<u>2,971,345</u>
	(470,960)	(415,130)
Net assets reclassified	<u>384,870</u>	<u>417,424</u>
Change in unrestricted net assets	(86,090)	2,294
<b>Temporarily Restricted Net Assets:</b>		
Contributions	2,829,473	2,628,505
Net rental income	227,115	225,078
Investment income	79,592	545,418
Investment gains	1,331,266	522,204
Investment costs	(110,271)	(119,719)
Net assets released from restrictions	(2,258,871)	(2,458,960)
Net assets reclassified	<u>(1,011,788)</u>	<u>(993,273)</u>
Change in temporarily restricted net assets	1,086,516	349,253
<b>Permanently Restricted Net Assets:</b>		
Contributions	763,078	599,560
Investment income	8,734	9,021
Investment gains	27,629	33,481
Investment costs	(9,302)	(9,280)
Net assets reclassified	<u>626,918</u>	<u>575,849</u>
Change in permanently restricted net assets	<u>1,417,057</u>	<u>1,208,631</u>
<b>Change in Net Assets</b>	2,417,483	1,560,178
<b>Net Assets at July 1</b>	<u>27,093,872</u>	<u>25,533,694</u>
<b>Net Assets at June 30</b>	<u>\$ 29,511,355</u>	<u>\$ 27,093,872</u>

The accompanying notes are an integral part of these statements.

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Utah Valley State College)**  
**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2006 and 2005

	2006	2005
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 2,417,483	\$ 1,560,178
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Investment gains recognized	(1,012,289)	(1,549,056)
Accrued interest recognized	-	(2,002)
Noncash contributions of assets	(999,469)	(134,621)
Depreciation of rental income property	131,159	126,464
Allowance for uncollectible pledges	123,689	3,141
Changes in operating assets and liabilities:		
Pledges receivable	66,299	45,881
Cash value of life insurance	(740)	4,139
Contributions receivable from charitable remainder unitrusts	404,787	-
Prepaid rental income	(66,959)	(66,959)
Net cash provided (used) by operating activities	1,063,960	(12,835)
<b>Cash Flows from Investing Activities:</b>		
Purchases of and other additions to investments	(2,389,899)	(1,727,865)
Proceeds from sales of land	-	508,088
Sales of and other deductions to investments	2,191,687	713,534
Principal collected on note receivable	35,926	4,074
Net cash used by investing activities	(162,286)	(502,169)
<b>Cash Flows from Financing Activities:</b>		
Payments of deferred annuities	(48,234)	(43,547)
Contributions received in exchange for deferred annuity	-	95,426
Repayment of notes payable	(134,685)	(125,659)
Net cash used by financing activities	(182,919)	(73,780)
<b>Net Change in Cash and Cash Equivalents</b>	<b>718,755</b>	<b>(588,784)</b>
<b>Cash and Cash Equivalents at July 1</b>	<b>220,695</b>	<b>809,479</b>
<b>Cash and Cash Equivalents at June 30</b>	<b>\$ 939,450</b>	<b>\$ 220,695</b>

Supplemental information:

During the years ended June 30, 2006 and 2005, the Foundation paid \$114,358 and \$123,447 in interest, respectively. The Foundation paid no income taxes for the years ended June 30, 2006 and 2005.

During the years ended June 30, 2006 and 2005, the Foundation received contributions of noncash assets valued at \$999,469 and \$134,621, respectively.

The accompanying notes are an integral part of these statements.

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Utah Valley State College)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Summary of Significant Accounting Policies**

Reporting Entity - Utah Valley State College Foundation, Inc., (the Foundation) is a separate but affiliated nonprofit organization of Utah Valley State College (the College), which is a component unit of the State of Utah. The financial activity of the Foundation is included in the College's annual financial report.

The Foundation was incorporated August 27, 1981. The Foundation is administered by a Board of Directors consisting of a minimum of six voting members and a non-voting Executive Director. The College president is a member of the Board. The mission of the Foundation is to raise and administer funds to support the growth, development and advancement of the College as a quality educational institution. The Foundation is a tax-exempt entity under Internal Revenue Code Section 501(a) and is classified as a Section 501(c)(3) public charity.

The following is a summary of the more significant accounting policies:

Restricted and Unrestricted Revenue and Support - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

When investment earnings are allocated, the earnings are distributed from temporarily restricted net assets to unrestricted or permanently restricted net assets and are reported in the statement of activities as "net assets reclassified."

Donated Services - Individuals donate services to the Foundation, the value of which has not been measured or recorded in the financial statements.

Gifts in Kind - Donations of equipment and materials to the Foundation are transferred directly to the College and are recorded by the Foundation at estimated fair value at the time of the donation as temporarily restricted contributions with a corresponding program service expense.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Foundation also considers deposits with the Utah Public Treasurers' Investment Fund to be cash equivalents.

Investments - Investments are presented in the financial statements at fair value. Gains and losses on investments and changes in fair values are considered elements of revenue.

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Utah Valley State College)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

Contributed Assets Held - Contributed assets held are stated at original contributed value or current market value, whichever is lower.

Other Assets - Other assets held are stated at cost or fair value, whichever is lower.

Land - Land is stated at its appraised market value at the time of its donation or the cost of the land at the time of its purchase.

Rental Income Property - Rental income property consists of buildings owned and leased to the College (see Note 9). Rental income property is stated at the cost of the property at the time of its purchase. The buildings are being depreciated over their estimated useful lives of 15 to 40 years.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2. Financial Instruments**

The Foundation maintains its cash balances in the Public Treasurer's Investment Fund (PTIF) with the Utah State Treasurer and in several financial institutions. The amount on deposit at June 30, 2006, in the PTIF account is \$912,068 and is combined with the College's PTIF account. Although this amount is not covered by federal depository insurance, PTIF deposits are secured by investments purchased in compliance with the Utah State Money Management Act. The total amount deposited in various other financial institutions at June 30, 2006, is \$27,382, all of which is insured by the Federal Deposit Insurance Corporation.

**Note 3. Pledges Receivable**

Pledges for contributions are recorded when the pledge's collection is expected in the near term and is probable. An allowance for uncollectible pledges is estimated as a percentage of pledges receivable at year end. All pledges receivable (at their net present value) are restricted for various purposes as of June 30, 2006 and 2005 as follows:

	<u>2006</u>	<u>2005</u>
Library	\$ 125,000	\$ 299,135
Scholarships	179,152	228,260
Other	36,396	3,141
	<u>340,548</u>	<u>530,536</u>
Pledges receivable, net	<u>\$ 340,548</u>	<u>\$ 530,536</u>

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**

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**Note 3. Pledges Receivable (Continued)**

Pledges made will be received (depending on the donor) from within one year to six years. Pledges to be received after June 30, 2006, have been discounted to their net present value using the June 2006 Applicable Federal Rates for the anticipated collection period. The Applicable Federal Rates ranged from 3.41 to 4.01 percent with an average discount rate of 3.68 percent. Pledges receivable at June 30, 2006, are as follows:

Receivable within one year	\$ 321,225
Receivable in two to five years	175,665
Receivable in more than five years	<u>-</u>
Total pledges receivable	496,890
Discount pledges to net present value	(29,512)
Allowance for uncollectible pledges	<u>(126,830)</u>
Total pledges receivable, net of allowance for uncollectible pledges	<u><u>\$ 340,548</u></u>

**Note 4. Beneficiary Interest in Life Insurance Policies**

The Foundation is owner and beneficiary of certain life insurance policies through a charitable insurance program. Accordingly, the Foundation has access to the cash values and dividends of the policies. Total insurance in force and cash values at June 30, 2006, are \$100,000 and \$15,813, respectively. Total insurance in force and cash values at June 30, 2005, are \$100,000 and \$15,073, respectively.

For insurance premiums paid by the Foundation, the change in cash surrender value during the period is an adjustment of premiums paid in determining the expense to be recognized for the period.

For insurance premiums paid by the policy donor, the change in each surrender value during the period is recognized as a contribution for the period.

**Note 5. Investments**

Investments at June 30, 2006 and 2005, consist of the following:

	<u>2006</u>	<u>2005</u>
Common and preferred stocks	\$ 10,299,819	\$ 8,340,206
Mutual funds	783,739	424,945
U.S. Government securities	1,897,066	2,582,954
Corporate bonds	713,996	1,397,264
Money market accounts	911,578	710,908
Certificates of deposit	<u>624,842</u>	<u>623,123</u>
	<u><u>\$ 15,231,040</u></u>	<u><u>\$ 14,079,400</u></u>

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Utah Valley State College)**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 5. Investments (Continued)**

The net return on investments for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Interest and dividend income	\$ 358,907	\$ 294,886
Gains and changes in fair values	953,428	604,580
Investment costs	<u>(119,636)</u>	<u>(92,808)</u>
Net return on investments	<u>\$ 1,192,699</u>	<u>\$ 806,658</u>

At June 30, 2006, the Foundation's investments had the following maturities:

	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than One</u>	<u>One to Five</u>	<u>Five to Ten</u>	<u>Ten to Twenty</u>
Mutual funds	\$ 783,739	\$ -	\$ 590,844	\$ 192,895	\$ -
U.S. Government securities	1,897,066	129,026	949,327	620,561	198,152
Corporate bonds	713,996	26,694	660,874	26,428	-
Money market accounts	911,578	911,578	-	-	-
Certificates of deposit	<u>624,842</u>	<u>116,513</u>	<u>508,329</u>	<u>-</u>	<u>-</u>
Total investments with a maturity	4,931,221	<u>\$ 1,183,811</u>	<u>\$ 2,709,374</u>	<u>\$ 839,884</u>	<u>\$ 198,152</u>
Common and preferred stocks	<u>10,299,819</u>				
	<u>\$15,231,040</u>				

At June 30, 2006, the Foundation's investments had the following investment ratings:

	<u>Fair Value</u>	<u>Credit Rating</u>			
		<u>AAA to A+</u>	<u>A</u>	<u>B</u>	<u>Unrated</u>
Common and preferred stocks	\$10,299,819	\$ -	\$ -	\$ -	\$10,299,819
Mutual funds	783,739	-	6,062	1,617	776,060
U.S. Government securities	1,897,066	-	-	-	1,897,066
Corporate bonds	713,996	109,382	-	-	604,614
Money market accounts	911,578	-	-	-	911,578
Certificates of deposit	<u>624,842</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>624,842</u>
	<u>\$15,231,040</u>	<u>\$ 109,382</u>	<u>\$ 6,062</u>	<u>\$ 1,617</u>	<u>\$15,113,979</u>

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Utah Valley State College)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5. Investments (Continued)**

Interest Rate Risk - Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates. The Foundation's investment policy limits investing in any issuance with a maturity of over 30 years and requires the overall portfolio average life to be less than 15 years as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - Credit quality can be a depiction of potential variable cash flows and credit risk. The credit rating reported is a weighted average of the Standard & Poors ratings of all Foundation holdings. The Foundation does not have a formal investment policy that limits its investment choices in regard to credit quality ratings.

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Foundation will not be able to recover the value of the investments that are in the possession of an outside party. The Foundation does not have a formal investment policy for custodial credit risk in regard to the custody of the Foundation's investments.

Concentration of Credit Risk - Although investments intrinsically carry credit risk, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. The Foundation's investment policy limits to 3 percent of the total portfolio fair value the amount the Foundation may invest in any one issuer.

**Note 6. Charitable Remainder Unitrusts**

The Foundation has been named a beneficiary in a number of charitable remainder unitrusts. A charitable remainder unitrust provides for the payment of distributions to the donor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available to be received by the beneficiaries named in the trust agreement.

The Foundation records the present value of the future benefits to be received from these trusts in the Statements of Activities as temporarily restricted contributions in the period the trusts are established. Such contributions totaled \$824,469 and \$54,621 for the years ended June 30, 2006 and 2005, respectively.

The Foundation revalues the amounts receivable from the trusts each year based on the fair value of the trust assets and actuarial assumptions regarding the amount that will be available at the end of the trust's term. Actuarial assumptions include a) payout rates, b) guaranteed number of years of payouts and/or life expectancies, and c) discount rates. The change in value of the trust assets is recorded in the Statements of Activities as temporarily restricted investment gains (losses). Such investment gains totaled \$59,310 and \$153,901 for the years ended June 30, 2006 and 2005, respectively.

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Utah Valley State College)**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 7. Temporarily and Permanently Restricted Net Assets**

A summary of restricted net assets consists of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
<b>Temporarily Restricted Net Assets</b>		
Restricted for:		
1990 Challenge grant (Browning trust)	\$ 2,642,604	\$ 2,561,611
1988 Challenge grant	516,222	484,249
Alumni	215,185	260,285
New Horizons	667,394	713,469
Presidential scholarships	317,033	283,454
Wilkins annuity fund, net of obligation	212,824	200,784
McConochie annuity fund, net of obligation	459,432	417,527
Library	260,587	310,882
Asian Center	120,000	70,000
EsNet land	2,398,600	2,398,600
Heber land	850,000	850,000
Butler	65,660	95,680
Reese	198,153	185,880
Baseball stadium	340,000	340,000
Various scholarships	527,810	576,234
Charitable remainder trusts	6,328,476	5,849,484
Other	3,938,985	3,374,310
	<u>\$ 20,058,965</u>	<u>\$ 18,972,449</u>
<b>Permanently Restricted Net Assets</b>		
Restricted for:		
Walker trust endowment	\$ 472,816	\$ 465,050
Gunther scholarships	558,457	558,457
Institutional excellence	140,951	139,509
Ragan scholarships	181,888	179,306
Greer nursing scholarships	125,504	123,209
Woodbury business scholarships	645,789	591,857
Pope scholarship fund	767,709	756,071
Pope Colorado Plateau Field Institute fund	802,688	790,125
Halladay endowment	342,578	334,466
Herwig endowment	375,991	378,761
Morris endowment	273,619	268,398
Hammond endowment	183,131	178,131
Various endowed scholarships	4,278,447	2,969,911
Other	15,813	15,073
	<u>\$ 9,165,381</u>	<u>\$ 7,748,324</u>

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Utah Valley State College)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 8. Deferred Annuity Payments**

The deferred annuity liability of \$692,035 and \$740,269 at June 30, 2006 and 2005, respectively, represents amounts due to six donors in return for contributions received. The liability is the present value of the annuities based on the expected lives of the donors, annual payments to the donors, and stated interest rates. Should a donor's life exceed that expected, the Foundation would be required to continue to making payments to the donor until death.

**Note 9. Foundation Transactions with Utah Valley State College**

The Foundation has entered into various agreements involving the College:

- A. Rental Income Property. Three buildings have been recorded at cost (\$5,483,679 at June 30, 2006 and 2005). The buildings are depreciated primarily over 40 years using the straight-line method. Accumulated depreciation totaled \$816,846 and \$685,238 at June 30, 2006 and 2005, respectively.

These three buildings were financed in part by assuming or issuing mortgages and notes payable (secured by the buildings) with the following outstanding balances at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Notes payable to significant contributors payable in monthly installments of \$7,000, including interest at 8%, maturing October 2011	\$ 411,627	\$ 460,389
Mortgage payable to Small Business Administration payable in monthly installments of \$2,942 including interest at 8%, maturing August 2014	197,702	214,415
Mortgage payable to Small Business Administration payable in monthly installments of \$3,292 including interest at 6.6%, maturing October 2018	265,805	281,223
Note payable to financing company payable in monthly installments of \$7,645, including interest at 5.8%, maturing March 2010	<u>629,353</u>	<u>683,145</u>
Total	<u><u>\$ 1,504,487</u></u>	<u><u>\$ 1,639,172</u></u>

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Utah Valley State College)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 9. Foundation Transactions with Utah Valley State College (Continued)**

Principal maturities of the mortgages and notes payable for the buildings for years ending after June 30, 2006 are summarized as follows:

2007	\$ 144,376
2008	154,782
2009	165,957
2010	558,388
2011	119,154
2012-2016	321,596
2017-2018	40,234
	<u>\$ 1,504,487</u>

The Foundation incurred \$114,358 and \$123,447 of interest expense in relation to these mortgages and notes payable during the years ended June 30, 2006 and 2005, respectively.

The Foundation leases all of its buildings to the College under non-cancelable operating leases through December 2013. The lease agreements call for fixed rental payments that in substance provide adequate cash flows to service the debt on the buildings and provide a return of the Foundation's investment in the buildings.

The future minimum annual rents to be received under the leases for the five years ending after June 30, 2006 are summarized as follows:

2007	\$ 375,771
2008	375,771
2009	375,771
2010	375,771
2011	375,771

The Foundation records lease revenue on the straight-line method. The difference between the amount of lease receipts and lease revenue is recorded as an adjustment to prepaid rental income.

During the year ended June 30, 2000, the College made certain improvements and payments totaling \$485,179 for one of the buildings it leases from the Foundation; the amounts paid by the College are recorded as a liability (prepaid rental income) on the statements of financial position of the Foundation. The College has paid additional amounts recorded as a liability in succeeding years. The balance at June 30, 2006 and 2005 is \$502,183 and \$569,142, respectively. The prepaid rental income is amortized over the remaining life of the 15-year lease on the straight-line method.

**UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Utah Valley State College)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 9. Foundation Transactions with Utah Valley State College (Continued)**

- B. Operations and Support. During the years ended June 30, 2006 and 2005, the Foundation had certain transactions with the College in its capacity to support the College. The Foundation forwarded funds and donated in-kind materials and equipment to the College for scholarships, awards, departments and general use. Funds forwarded for departments during the years ended June 30, 2006 and 2005, include wages and purchases of items to enhance College programs. The College provides facilities and services to the Foundation, the value of which is undetermined and is not recorded on the financial statements.

**Note 10. Challenge Grant Endowment Fund**

1988 Challenge Grant Endowment Fund - In June 1989, the Foundation received a \$200,000 Challenge Grant from the U.S. Department of Education. As required by the grant, the Foundation also received \$200,000 in matching contributions. The grant and matching funds must be invested for a minimum of 20 years. Fifty percent of the investment earnings are available for current expense; the remainder must be reinvested in this endowment fund. At the end of the 20 years (June 2009), the corpus and reinvested earnings may be used for any educational purpose at Utah Valley State College.

1990 Challenge Grant Endowment Fund - In May 1992, the Foundation received a \$1,000,000 Challenge Grant from the U.S. Department of Education. As required by the grant, the Foundation also received funds totaling \$500,001 in matching funds from the Browning Foundation. The Challenge Grant and matching funds were deposited in the Browning Scholarship Endowment Trust Fund with a local financial institution acting as trustee. The grant and matching funds must be invested for a minimum of 20 years in savings accounts or low-risk securities, as defined by the trust agreement. Fifty percent of the investment earnings are available for current expense; the remainder must be reinvested in this endowment fund. At the end of the 20 years (May 2012), the corpus and reinvested earnings may be used for any educational purpose at Utah Valley State College.

**REPORT IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Year Ended June 30, 2006



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

Board of Directors  
Utah Valley State College Foundation, Inc.

We have audited the financial statements of Utah Valley State College Foundation, Inc. (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Utah Valley State College Foundation, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

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

This report is intended solely for the information and use of the Board of Directors, management, and federal and state oversight entities and is not intended to be and should not be used by anyone other than these specified parties.

*Squire & Company, PC*

August 8, 2006



## Letter to Management

Board of Directors  
Utah Valley State College Foundation, Inc.

In planning and performing our audit of the financial statements of Utah Valley State College Foundation, Inc., (the Foundation) for the year ended June 30, 2006, we considered the Foundation's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated August 8, 2006, on the financial statements of the Foundation. Our comments and suggestions regarding these matters are those we identified during our audit as follows:

Unrestricted Net Assets – The Foundation continues to bear more of the operational costs of running the Foundation as the College has reduced its participation in the Foundation's operations. As a result, the Foundation's unrestricted net asset balance has decreased as the Foundation uses its resources to support its operations. We recommend implementing a plan to raise the funds necessary to sustain the Foundation's operations. This plan should include a budget of the Foundation's operational costs as a basis for ongoing fundraising activities.

Charitable Remainder Unitrusts Valuation – The Foundation has been named as the beneficiary in a number of charitable remainder unitrusts. The Foundation revalues the amounts receivable from the trusts each year based on the fair value of the trust assets and on actuarial assumptions regarding the amount that will be available at the end of the trust's terms. In evaluating the actuarial assumptions used to revalue some of the trusts, it was observed that the actuarial assumptions used were improper. While the valuation of these trusts was not determined to be significantly different than the amount recorded on the financial statements, we recommend that all trust valuation calculations be reviewed by Foundation personnel familiar with each trust's assets, trust's structure, and the actuarial assumptions needed to revalue of trust's assets.

We will review the status of these comments during our next engagement. We express our appreciation to the Foundation's management and staff for their assistance in the audit.

*Squire & Company, PC*

August 8, 2006