

UTAH VALLEY STATE COLLEGE FOUNDATION, INC.

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

Years Ended June 30, 2004 and 2003

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UTAH VALLEY STATE COLLEGE FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION

June 30, 2004 and 2003

	2004	2003
Assets:		
Cash and cash equivalents	\$ 809,479	\$ 1,237,779
Investments	11,637,636	9,798,406
Cash value of life insurance	19,212	21,583
Pledges receivable, net of allowance for uncollectible pledges of \$534,000 at June 30, 2004	4,806,400	-
Contributed assets held	-	7,110
Other assets	34,300	43,621
Notes receivable	-	6,209
Rental income property, net of accumulated depreciation of \$558,774 and \$443,231 at June 30, 2004 and 2003, respectively	4,924,905	5,040,448
Land	4,976,964	4,451,964
Contributions receivable from charitable remainder unitrusts	5,640,962	5,193,930
Total assets	<u>\$ 32,849,858</u>	<u>\$ 25,801,050</u>
Liabilities:		
Notes payable	\$ 1,764,831	\$ 2,014,488
Deferred annuity payments	688,390	726,850
Prepaid rental income	636,101	583,867
Total liabilities	3,089,322	3,325,205
Net Assets:		
Unrestricted	370,805	258,418
Temporarily restricted	22,850,038	16,720,251
Permanently restricted	6,539,693	5,497,175
Total net assets	<u>29,760,536</u>	<u>22,475,844</u>
Total liabilities and net assets	<u>\$ 32,849,858</u>	<u>\$ 25,801,049</u>

The accompanying notes are an integral part of these statements.

UTAH VALLEY STATE COLLEGE FOUNDATION, INC
STATEMENTS OF ACTIVITIES

Years Ended June 30, 2004 and 2003

	2004	2003
Unrestricted Net Assets:		
Revenue and support:		
Contributions	\$ 54,023	\$ 56,348
Net assets released from restrictions	1,798,361	12,998,908
Investment income	-	5,701
Total unrestricted revenue and support	<u>1,852,384</u>	<u>13,060,957</u>
Expenses:		
Program services:		
Scholarships	528,620	654,612
Departments:		
Transfers of donated in-kind materials and equipment	446,312	9,588,945
Other expenses	627,684	2,588,710
Annuity costs	65,181	67,081
Wolverine Club	-	124,295
Supporting services:		
Investment costs	-	6,353
Institutional enhancement	44,391	101,931
General administration	429,065	414,144
Total expenses	<u>2,141,253</u>	<u>13,546,071</u>
	(288,869)	(485,114)
Net assets reclassified	<u>401,256</u>	<u>204,580</u>
Change in unrestricted net assets	112,387	(280,534)
Temporarily Restricted Net Assets:		
Contributions	7,374,704	12,100,223
Net rental income	201,526	240,633
Investment income	210,382	268,541
Investment gains	1,209,155	64,282
Investment costs	(79,783)	(14,986)
Net assets released from restrictions	(1,798,361)	(12,998,908)
Net assets reclassified	<u>(987,836)</u>	<u>(271,325)</u>
Change in temporarily restricted net assets	6,129,787	(611,540)
Permanently Restricted Net Assets:		
Contributions	372,579	427,633
Investment income	8,719	55,535
Investment gains (losses)	82,592	(105,968)
Investment costs	(7,953)	(7,277)
Net assets reclassified	<u>586,580</u>	<u>66,745</u>
Change in permanently restricted net assets	<u>1,042,517</u>	<u>436,668</u>
Change in Net Assets	7,284,691	(455,406)
Net Assets at July 1	<u>22,475,845</u>	<u>22,931,251</u>
Net Assets at June 30	<u>\$ 29,760,536</u>	<u>\$ 22,475,845</u>

The accompanying notes are an integral part of these statements.

UTAH VALLEY STATE COLLEGE FOUNDATION, INC.**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2004 and 2003

	2004	2003
Cash Flows from Operating Activities:		
Change in net assets	\$ 7,284,691	\$ (455,406)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
(Gains) losses recognized	(1,259,499)	156,796
Accrued interest recognized	6,209	5,645
Noncash contributions of assets	(730,519)	(49,654)
Depreciation of rental income property	121,377	117,116
Allowance for uncollectible pledges	534,000	-
Changes in operating assets and liabilities:		
Increase in pledges receivable	(5,340,400)	-
Increase in cash value of life insurance	2,371	888
Increase in other assets	9,321	8,998
Increase in prepaid rental income liability	52,234	33,039
Net cash provided (used) by operating activities	679,785	(182,578)
Cash Flows from Investing Activities:		
Purchases of and other additions to investments	(8,404,610)	(332,694)
Purchase of land	-	(1,191,000)
Proceeds from sale of land	-	18,512
Sales of and other deductions to investments	7,584,642	1,624,637
Principal collected on loans to Utah Valley State College	-	90,120
Net cash provided (used) by investing activities	(819,968)	209,575
Cash Flows from Financing Activities:		
Payments for annuity obligations	(38,460)	(38,459)
Repayment of notes payable	(249,657)	(336,292)
Net cash used by financing activities	(288,117)	(374,751)
Net Change in Cash and Cash Equivalents	(428,300)	(347,754)
Cash and Cash Equivalents at July 1	1,237,779	1,585,533
Cash and Cash Equivalents at June 30	\$ 809,479	\$ 1,237,779

Supplemental information:

During the years ended June 30, 2004 and 2003, the Foundation paid \$151,593 and \$164,135 in interest, respectively. The Foundation paid no income taxes for the years ended June 30, 2004 and 2003.

During the years ended June 30, 2004 and 2003, the Foundation received contributions of noncash assets valued at \$730,519 and \$49,654, respectively.

The accompanying notes are an integral part of these statements.

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

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(c)(3) and is classified as a 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".

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 and expense.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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 property is being depreciated over its estimated useful life 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 located in Utah County, Utah. The amount on deposit at June 30, 2004, in the PTIF account is \$708,736 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, 2004, is \$100,742, all of which is insured by the Federal Deposit Insurance Corporation.

Note 3. Pledges Receivable

Pledges for contributions are recorded when pledged. 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 follows:

Heber campus	\$ 2,884,637
Baseball stadium	1,976,204
Scholarships	381,508
Library	98,051
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	\$ 5,340,400
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UTAH VALLEY STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 3. Pledges Receivable (Continued)

Pledges made will be received (depending on the donor) from within one year to over ten years. Pledges to be received after June 30, 2005, have been discounted to their net present value using the June 2004 Applicable Federal Rates for the anticipated collection period. The Applicable Federal Rates ranged from 1.97 to 5.2 percent with an average discount rate of 3.37 percent. Pledges receivable at June 30, 2004, are as follows:

Receivable within one year	\$ 355,410
Receivable in two to five years	4,376,689
Receivable in more than five years	<u>1,365,252</u>
Total pledges receivable	6,097,351
Discount pledges to net present value	(756,951)
Allowance for uncollectible pledges	<u>(534,000)</u>
Total pledges receivable, net of allowance for uncollectible pledges	<u><u>\$ 4,806,400</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, 2004, are \$110,000 and \$19,212, respectively. Total insurance in force and cash values at June 30, 2003, are \$160,000 and \$21,583, 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, 2004 and 2003, consist of the following:

	<u>2004</u>	<u>2003</u>
Common and preferred stocks	\$ 6,758,052	\$ 1,059,593
Mutual funds	468,548	6,677,992
U.S. Government securities	1,298,775	380,567
Corporate bonds	1,860,012	827,000
Money market accounts	630,434	237,094
Certificates of deposit	<u>621,815</u>	<u>616,160</u>
	<u><u>\$ 11,637,636</u></u>	<u><u>\$ 9,798,406</u></u>

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

Note 5. Investments (Continued)

The net return on investments for the years ended June 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Interest and dividend income	\$ 227,859	\$ 297,048
Gains and changes in fair values	1,093,903	9,394
Investment costs	<u>(70,032)</u>	<u>(42,512)</u>
Net return on investments	<u>\$ 1,251,730</u>	<u>\$ 263,930</u>

At June 30, 2004, 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>
Mutual funds	\$ 468,548	\$ 7,617	\$ -	\$ 460,931
U.S. Government securities	1,298,775	102,407	976,560	219,808
Corporate bonds	1,860,012	103,905	571,456	1,184,651
Money market accounts	630,434	630,434	-	
Certificates of deposit	<u>621,815</u>	<u>98,452</u>	<u>523,363</u>	<u>-</u>
Total investments with a maturity	4,879,584	<u>\$ 942,815</u>	<u>\$ 2,071,379</u>	<u>\$ 1,865,390</u>
Common and preferred stocks	<u>6,758,052</u>			
	<u>\$ 11,637,636</u>			

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At June 30, 2004, the Foundation's investments had the following investment ratings:

	<u>Fair Value</u>	<u>Credit Rating</u>	
		<u>A</u>	<u>Unrated</u>
Common and preferred stocks	\$ 6,758,052	\$ -	\$ 6,758,052
Mutual funds	468,548	-	468,548
U.S. Government securities	1,298,775	-	1,298,775
Corporate bonds	1,860,012	1,860,012	-
Money market accounts	630,434	-	630,434
Certificates of deposit	<u>621,815</u>	<u>-</u>	<u>621,815</u>
	<u>\$ 11,637,636</u>	<u>\$ 1,860,012</u>	<u>\$ 9,777,624</u>

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

Note 5. Investments (Continued)

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 does not have a formal investment policy that limits 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 \$205,519 and \$48,854 for the years ended June 30, 2004 and 2003, 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 (losses) totaled \$241,513 and \$(291,717) for the years ended June 30, 2004 and 2003, respectively.

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

Note 7. Temporarily and Permanently Restricted Net Assets

A summary of restricted net assets at June 30, 2004 and 2003, is as follows:

Temporarily Restricted Net Assets	<u>2004</u>	<u>2003</u>
Restricted for:		
1990 Challenge grant (Browning trust)	\$ 2,557,545	\$ 2,406,898
1988 Challenge grant	449,382	411,598
Alumni	164,977	256,481
New Horizons	654,285	611,301
Presidential scholarships	250,697	244,057
Wilkins annuity fund, net of obligation	162,123	175,894
McConochie annuity fund, net of obligation	275,937	324,986
Walker trust	28,504	247,243
GRA Park land	507,296	-
EsNet land	2,398,600	2,398,600
Heber land	850,000	850,000
Heber campus	2,596,173	-
Butler	105,776	121,776
Reese	172,496	157,992
Baseball stadium	1,878,584	-
Various scholarships	894,102	649,265
Charitable remainder trusts	5,640,962	5,193,930
Other	3,262,599	2,670,230
	<u>\$ 22,850,038</u>	<u>\$ 16,720,251</u>
 Permanently Restricted Net Assets		
Restricted for:		
Walker trust endowment	\$ 446,567	\$ 209,137
Gunther scholarships	558,457	552,502
Institutional excellence	134,174	134,174
Ragan scholarships	174,805	168,581
Greer nursing scholarships	119,838	115,540
Woodbury business scholarships	533,333	497,703
Pope scholarship fund	738,272	716,965
Pope Colorado Plateau Field Institute fund	769,915	721,812
Halladay Endowment	250,000	224,443
Herwig endowment	402,750	335,802
Morris endowment	260,680	250,000
Hammond endowment	170,049	158,096
Various endowed scholarships	1,470,173	937,978
Other	510,680	474,443
	<u>\$ 6,539,693</u>	<u>\$ 5,497,176</u>

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

Note 8. Deferred Annuity Payments

The deferred annuity liability of \$688,390 and \$726,850 at June 30, 2004 and 2003, respectively, represents amounts due to four 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.

Note 9. Foundation Transactions with Utah Valley State College

The Foundation has entered into various agreements involving the College:

- A. Rental Income Property. The Foundation acquired one building and two buildings during the years ended June 30, 2001 and 2000, respectively. The buildings have been recorded at cost (\$5,483,679 at June 30, 2004 and 2003). The buildings are depreciated primarily over 40 years using the straight-line method. Accumulated depreciation totaled \$558,774 and \$443,231 at June 30, 2004 and 2003, 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, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Notes payable to significant contributors payable in monthly installments of \$7,000, including interest at 8%, maturing October 2011	\$ 505,397	\$ 546,940
Mortgage payable to Small Business Administration payable in monthly installments of \$2,942 including interest at 8%, maturing August 2014	229,843	244,085
Mortgage payable to Small Business Administration payable in monthly installments of \$3,292 including interest at 6.6%, maturing October 2018	295,657	309,170
Note payable to financing company payable in monthly installments of \$7,645, including interest at 5.8%, maturing March 2010	733,934	781,887
Note payable to a nonprofit organization affiliated with the College payable in annual installments of \$125,000 including interest at 8.9%, maturing December 2003	-	132,406
Total	<u>\$ 1,764,831</u>	<u>\$ 2,014,488</u>

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

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

Principal maturities of the mortgages and notes payable for the buildings for the five years ending after June 30, 2004 are summarized as follows:

2005	\$	125,659
2006		134,685
2007		144,376
2008		154,782
2009		165,957
Thereafter		<u>1,039,372</u>
		<u>\$ 1,764,831</u>

The Foundation incurred \$151,593 and \$164,135 of interest expense in relation to these mortgages and notes payable during the years ended June 30, 2004 and 2003, 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, 2004 are summarized as follows:

2005	\$	375,771
2006		375,771
2007		375,771
2008		375,771
2009		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, 2004 and 2003, is \$636,101 and \$583,867, 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.
NOTES TO FINANCIAL STATEMENTS

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

- B. Operations and Support. During the years ended June 30, 2004 and 2003, 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, 2004 and 2003, 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.
- C. Loans to College. During the year ended June 30, 1998, the Foundation made loans to the College totaling \$740,000. A promissory note requires semi-annual payments of \$91,236 including interest at 8 percent. The note was retired during the year ended June 30, 2003.

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, 2004

