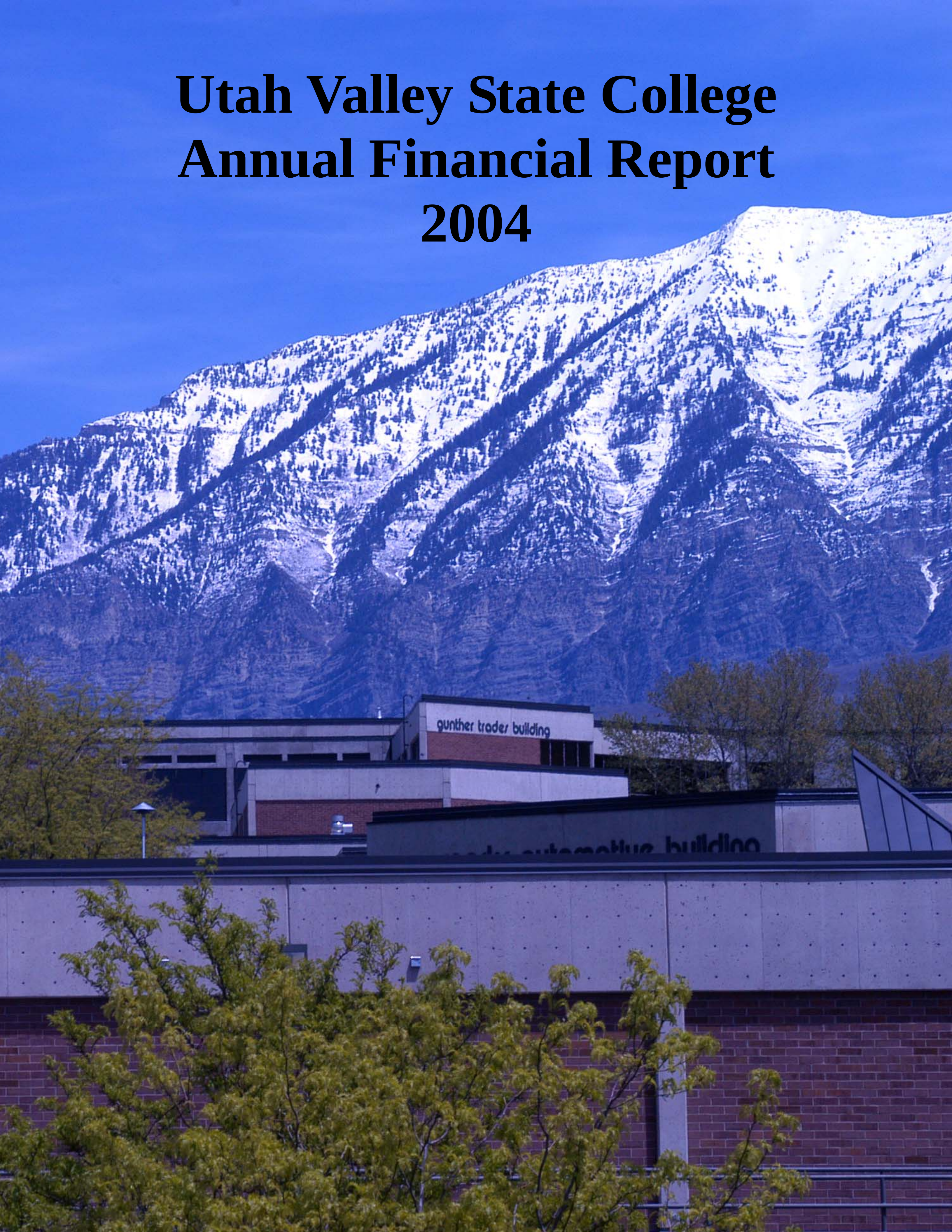
Utah Valley State College Annual Financial Report 2004



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College Governance

Board of Trustees

College Administration

Utah State Board of Regents

President's Message

On a business model, institutions of higher learning typically do not fare well when compared to the typical business plan. Arguably, colleges and universities are not as efficient with the majority of their employees—faculty—operating on a nine-month contract but receiving an annually based income. However, two other arguments without dispute hush the inherent inefficiencies, which are: institutions of higher learning are transformational and economic engines.

Walk any university and you will hear stories of how lives have been transformed, enlightened, awakened and elevated to immeasurable heights of awareness and possibilities. Institutions such as Utah Valley State are the epicenter of opportunity and education for their students and local community—a unique and priceless venture.

Second, colleges and universities are a major spark in the local economic engine. UVSC is such a spark in Utah County being the third largest employer in the area in addition to fueling countless other business and entrepreneurial endeavors. UVSC is the hub of much economic power whose role continues to expand as it continues to grow and develop new programs.

Providing students the opportunity to shape their lives and being the sparkplug in the local economy are roles we take very seriously here at UVSC. We are committed to the continuous improvement of our stewardship through quality improvement initiatives that enhance the "UV experience."

Fiscally, UVSC is stable, not having to cut its budget even through the past few lean years. Being strategic in resource allocation and fundraising, UVSC has enjoyed some wonderful successes. Specifically, the athletic program has made NCAA history being the only institution to make the jump from junior college level competition to Division I level of play—an unprecedented move that has been very positive in bringing to light the programmatic quality of UVSC. Complimenting UVSC's move to DI was the completion of the new baseball stadium, Parkway Crossing Stadium, which will have its official opening spring 2005.

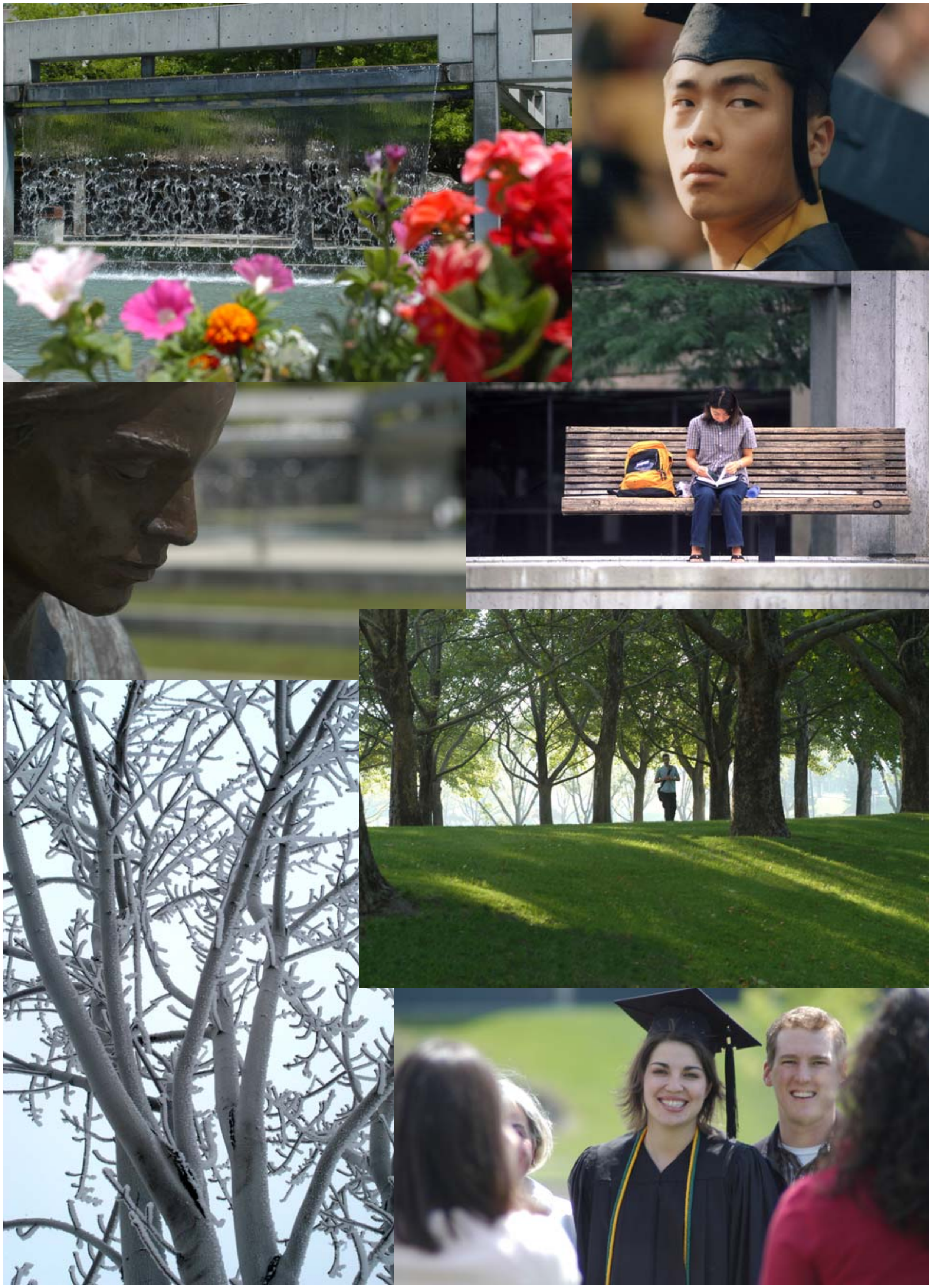
Fiscal health and institutional successes aside, UVSC is not without its challenges. UVSC is the lowest funded institution in the Utah System of Higher Education. UVSC only receives 46.7 percent of its annual operating budget from the state—the average percentage being 63.4 for the system. UVSC is the only institution in the state system whose students pay more than 50 percent of the cost to operate. This funding gap has been recognized by the State Board of Regents, who in its 2005-06 budget request to the state legislature seeks the means to close this funding gap. Obviously, UVSC welcomes this request and is hopeful it will be honored. If funded, the additional revenue will allow UVSC to implement strategically planned initiatives to better serve our students.

One final thought about the efficiencies of colleges and universities. Utah Valley State, while subject to the business model argument, cannot be held to the same level of scrutiny of other institutions in Utah or in the US. Simply put, UVSC has the reputation of being a well organized, growing institution that maximizes its resources to fulfill its primary mission of teaching. Enabling UVSC's proficiency are hundreds of dedicated employees—faculty and staff—who are committed to UVSC's mission and make every effort to be more effective and efficient in their stewardships. The outcome of such dedication and caring is the distinction of being the most efficiently run institution in the Utah State Higher Education System, which is the most efficient state system in the United States (*USHE, 2004*).

Utah Valley State is making a positive difference in the lives of its students and community and will continue to do so in the future. The people—students, faculty, staff, donors and community members—are the key variables that add up to the success of UVSC today and tomorrow. Thank you for your support.

Sincerely,

William A. Sederburg



Student Enrollment History as of Fall Semester

- 1994: 13,291
- 1998: 18,174
- 2004: 24,149 – increase for the 16th year in a row
- Projected enrollment for 2012 is 34,610 students

88 percent of UVSC students are Utah residents, 10.4 percent are from other states, and 1.6 percent are international students. Students represent all 50 states and 98 countries.

In 2004, the College experienced a 12 percent increase in students transferring to UVSC from other colleges and universities and a 21.4 percent drop in the number of students planning to transfer to other colleges or universities.

Academics

The average high school GPA for incoming freshmen is 2.76.

UVSC now offers 34 bachelor degree programs.

Number of graduates 2003-2004: 3,817
- Bachelor of Arts: 86
- Bachelor of Science: 1,386
- Associate in Arts: 108
- Associate in Science: 1,723
- Associate in Applied Science: 426
- One-year Certificate: 75
- Diploma: 13

In the 2003-2004 school year, $3.5 million was awarded in scholarships and tuition waivers. 68 endowed scholarships and 73 annual scholarships, a 7 percent increase from 2002-2003, were awarded from private donations.

Interesting Facts and Information

US News & World Report ranked UVSC among the top four comprehensive public colleges in the West for the second year in a row.

UVSC is the first member of the NJCAA to jump directly to Division I status of the NCAA.

The Wolverine Men's Basketball Team won the National Division-I Provisional competition in Ft. Meyers, Florida in 2004.

In the past 10 years, the UVSC Ballroom Dance Team has received 28 national and three world titles.

UVSC is home to the largest LDS Institute program in the world, with 10,681 students enrolled in fall 2003.

UVSC physical facilities include 31 buildings, including the Wasatch Campus in Heber City, Utah. Total gross square footage is 1,741,200.

The Orem Campus is located on 240 acres.

Sources

- Orem LDS Institute
- Utah System of Higher Education
- UVSC Athletic Department
- UVSC Institutional Advancement
- UVSC Institutional Research
- UVSC Planning Facilities Office

STATE OF UTAH

Office of the State Auditor

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Auston G. Johnson, CPA
UTAH STATE AUDITOR

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Joe Christensen, CPA

FINANCIAL AUDIT DIRECTORS:
H. Dean Eborn, CPA
Deborah A. Empey, CPA
Stan Godfrey, CPA
Jon T. Johnson, CPA

INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Trustees, Audit Committee,
and
William A. Sederburg, President
Utah Valley State College

We have audited the statement of net assets; statement of revenues, expenses, and changes in net assets; and statement of cash flows of Utah Valley State College (the College), and, based on the report of other auditors, its discretely presented component unit foundation, which collectively comprise the College's basic financial statements, as of and for the year ended June 30, 2004. The College is a component unit of the State of Utah. These financial statements are the responsibility of the College'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. The prior year summarized comparative information has been derived from the College's 2003 financial statements that were not audited by us.

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 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 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 Utah Valley State College and of its discretely presented component unit foundation as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, 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 October 1, 2004 on our consideration of the College'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.

The accompanying management discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Auston G. Johnson, CPA
Utah State Auditor
October 1, 2004

Utah Valley State College

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

Utah Valley State College (the College) is proud to present its financial statements for the fiscal year ending June 30, 2004. GASB Statements 34 and 35 require that the College report the financial statements with comparative data from fiscal year 2003. Therefore, this discussion is an overview of the College's financial activities for the year and is based on the comparative data presented. Three financial statements are presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and, the Statement of Cash Flows.

The Utah Valley State College Foundation (the Foundation) is a separate but affiliated non-profit corporation. The accounts of the Foundation are audited separately and reported in the Component Unit column of the financial statements. The audited financial statements for the Foundation are available through the College's Institutional Advancement Office.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the fiscal year. The Statement of Net Assets is a point-in-time financial statement or the College's Balance Sheet. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the College. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities or Equity). The difference between current and noncurrent assets is discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available for continued operations of the institution. A determination can also be made as to the debts owed to vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the College.

Net assets are divided into three major categories: invested in capital assets, net of debt; restricted net assets; and unrestricted net assets. The first category, invested in capital assets, net of debt, provides the institution's equity in property, plant, and equipment owned by the institution. The second net asset category is restricted net assets, which is divided into two subcategories, nonexpendable and expendable. The corpus of nonexpendable restricted net assets is only available for investment purposes. Expendable restricted net assets are available for expenditure by the College but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available for expenditure for any lawful purpose of the institution.

Statement of Net Assets, Condensed

	2004	2003
Assets:		
Current Assets	$ 35,023,376	$ 34,194,354
Noncurrent Notes receivable, net	1,660,483	1,552,211
Capital Assets, net	144,775,339	116,362,473
Other Noncurrent Assets	427,147	444,206
Total Assets	181,886,345	152,553,244
Liabilities		
Current Liabilities	13,614,472	10,729,192
Noncurrent Liabilities	18,118,107	19,379,656
Total Liabilities	31,732,579	30,108,848
Net Assets		
Invested in capital assets, net of debt	126,143,563	96,425,875
Restricted Expendable	4,327,941	6,964,643
Restricted Nonexpendable	152,764	150,500
Unrestricted	19,529,498	18,903,378
Total Net Assets	$ 150,153,766	$ 122,444,396

The increase in current assets held by the college is mainly due to an increase in student accounts receivable.

The College had significant capital asset additions for facilities in fiscal year 2004. The College completed several capital projects including, but not limited to, the Liberal Arts Building, the New Wasatch Campus, the Alpine Life and Learning Building, and the Vineyard School. There were no new bonds issued in fiscal year 2004; however, two new bonds were issued in early fiscal year 2005. Details of the bond issue can be found in Note 17 in the Notes to the Financial Statements. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the College.

Total liabilities increased this fiscal year due to increased accounts payable as well as an increase of funds held for others by the College. The majority of funds held for others consist of items for the Mountainland Applied Technology College. The College will no longer be the fiscal agent for Mountainland Applied Technology College in fiscal year 2005.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the operating and nonoperating revenues received by the institution, the operating and nonoperating expenses paid by the institution, and any other revenues, expenses, gains, or losses received or spent by the institution.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for operating revenues and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods or services for those revenues.

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

	2004	2003
Operating revenues	$ 101,030,426	$ 96,995,195
Operating expenses	146,480,702	139,713,924
Operating loss	(45,450,276)	(42,718,729)
Nonoperating revenues and expenses	43,450,696	39,933,386
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(1,999,580)	(2,785,343)
Other revenues, expenses, gains or losses	29,964,614	3,258,366
Increase in Net Assets	27,965,034	473,023
Net Assets at Beginning of Year, as Originally Reported	122,444,396	121,971,373
Prior Period Adjustment of Net Assets	(255,664)	-
Net Assets at Beginning of Year - Restated	122,188,732	121,971,373
Net Assets at End of Year	$ 150,153,766	$ 122,444,396

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets of $27,965,034. An explanation of a few of the changes causing the increase in Net Assets follows:

- The most significant change was an increase to other revenue of approximately $27 million due to the four capital asset additions.
- Operating revenues increased approximately $2 million from tuition and fee increases and moderate enrollment growth.
- Operating revenue also increased nearly $3 million due to an increase in Pell grants awarded to students.

- Operating expenses increased over $6 million, the majority of the increase being to salary and benefit expenses.
- Nonoperating income increased by over $2 million due to an increase in state appropriations and a slight increase in gifts and donations received.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section shows the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section details the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fourth section deals with the cash used for the acquisition and construction of capital related items. The fifth section reconciles the net cash used in operating activities to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Statement of Cash Flows, Condensed

	2004	2003
Cash provided (used) by:		
Operating Activities	$ (40,331,169)	$ (34,724,750)
Noncapital Financing Activities	44,536,229	41,461,009
Capital Financing Activities	(5,389,092)	(1,762,737)
Investing Activities	852,051	993,944
Change in Cash	(331,981)	5,967,466
Cash - Beginning of Year	27,187,038	21,219,572
Cash - End of Year	$ 26,855,057	$ 27,187,038

Changes in Operating Activities were mainly due to:

- An increase of approximately $6 million in payments for salaries and benefits.
- An increase of approximately $2 million in revenue from tuition and fees.
- A slight increase in grants received.

Changes in Noncapital Financing Activities were primarily from a $2 million increase in State Appropriations.

Changes in Capital Financing Activities represent:

- The College paid approximately $1.6 million towards the new Ballpark.
- Approximately $1.5 million was paid toward the Wasatch Campus.
- No capital appropriations were reported during the year due to a change in the recording of capital assets and appropriations administered by DFCM.

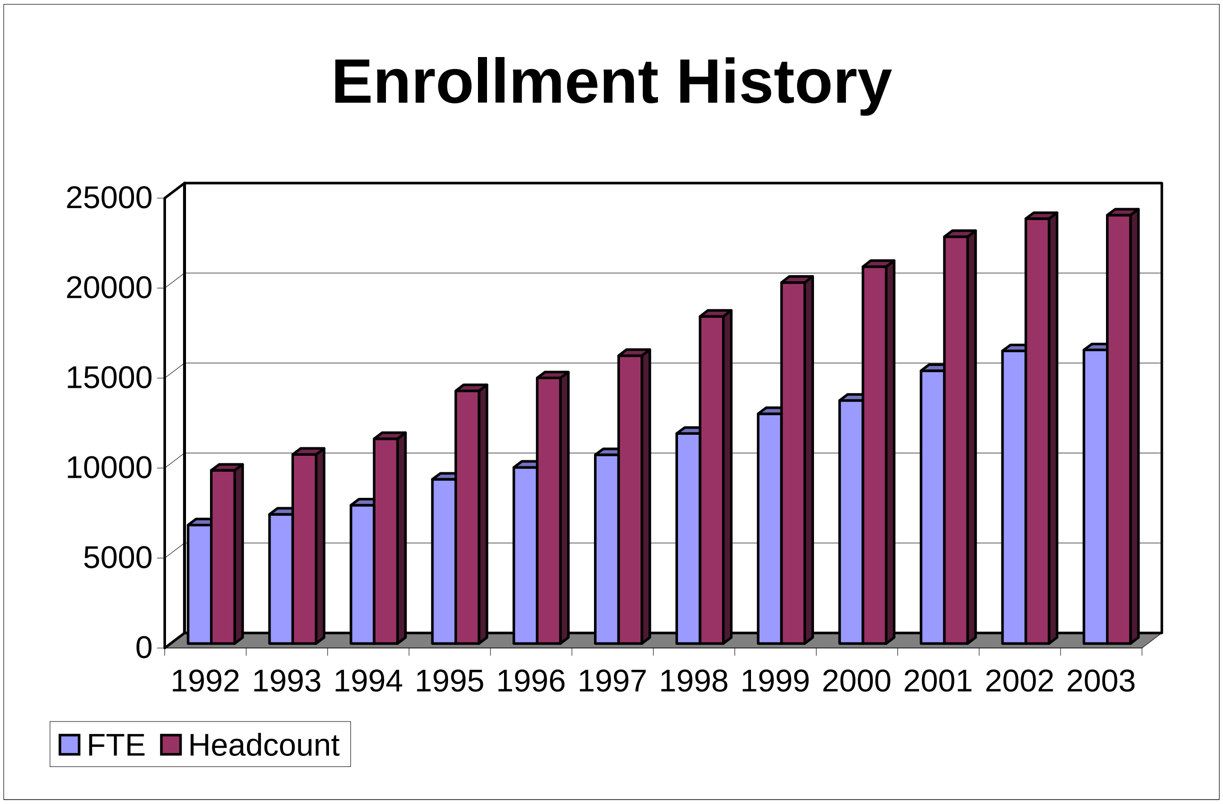
Economic Outlook

The College is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

The College's overall financial position is strong. The College anticipates the current fiscal year will be similar to the last and will maintain a close watch over resources to maintain the College's ability to react to unknown internal and external issues.

Michael R. Francis, CPA

Assistant Vice President for Business & Controller

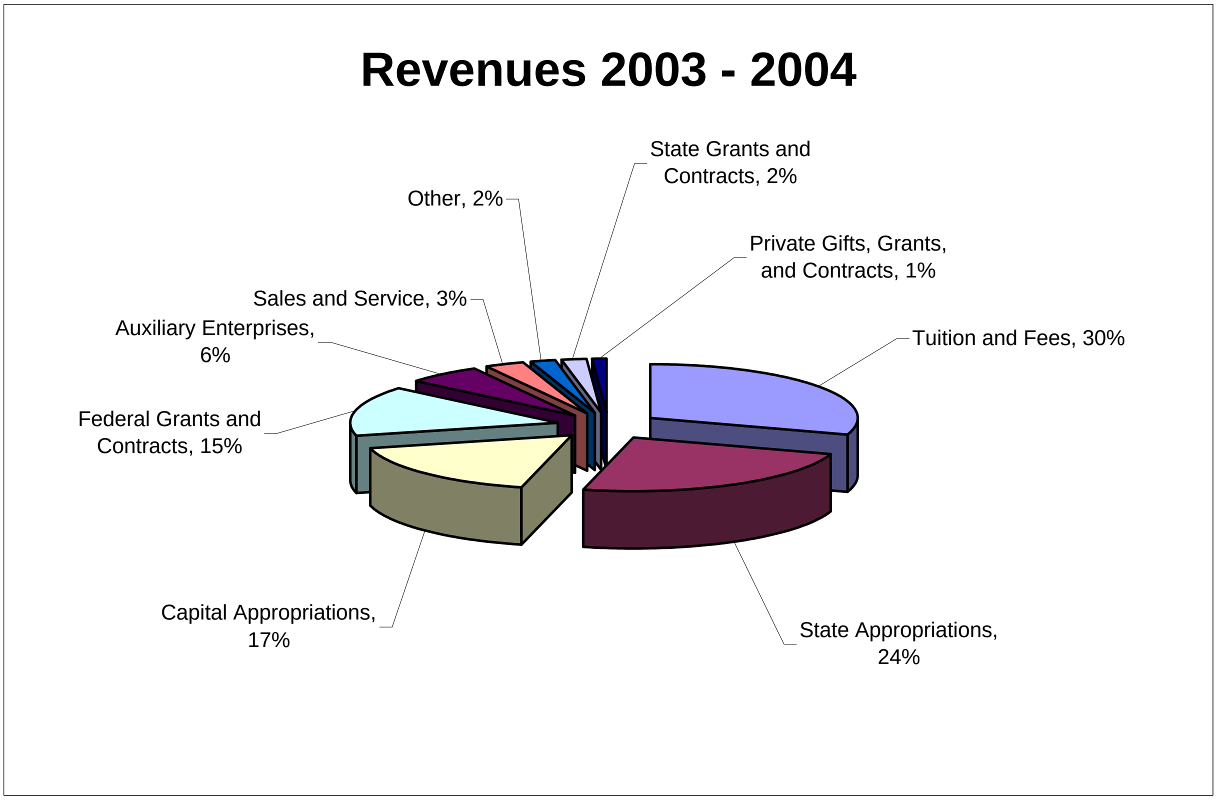


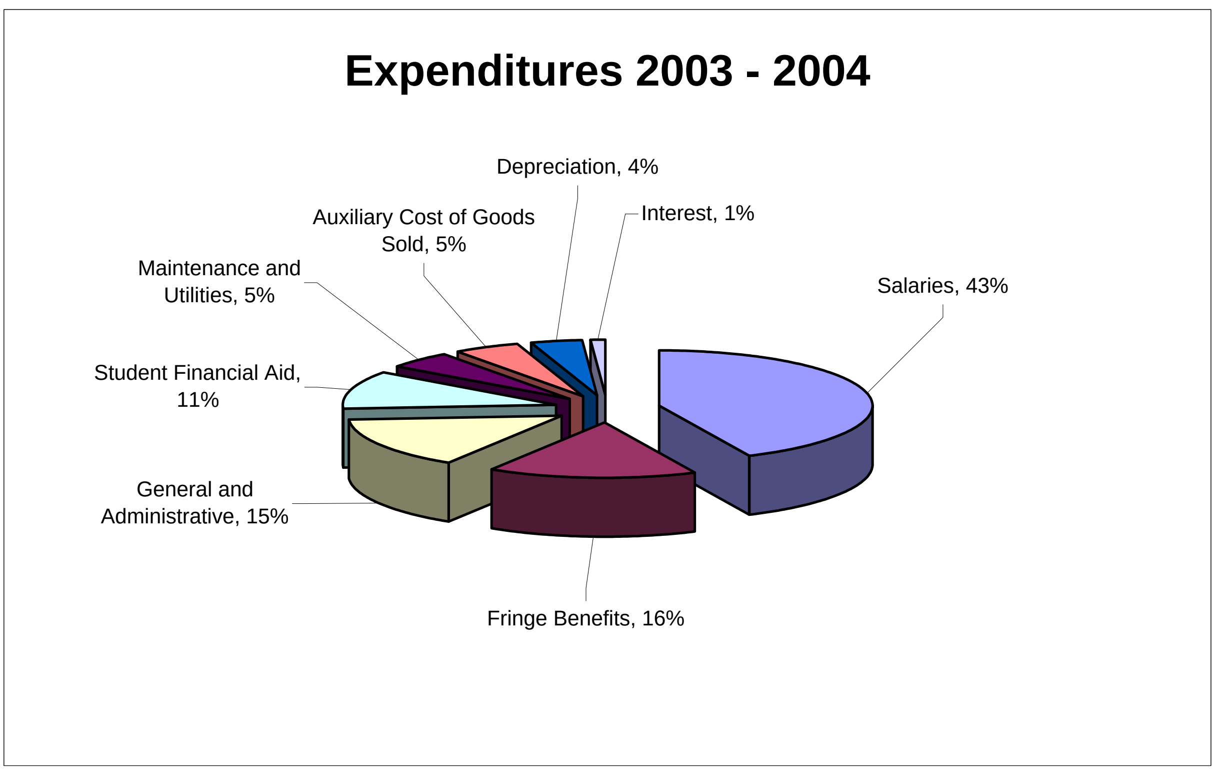
Total Headcount for Fall 2003 was 23,803.
Total Full Time Equivalent was 16,312.

Degrees Conferred for the Academic Year 2003 - 2004

Certificate	75
Diploma	13
Associate of Applied Science	426
Associate of Science	1,723
Associate of Arts	108
Bachelor of Science	1,386
Bachelor of Arts	86
Total	3,817

Total Revenues and Expenditures





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Financial

Statements

Utah Valley State College
Statement of Net Assets
As of June 30, 2004 (with comparative data as of June 30, 2003)

	Primary Institution UVSC 2004	Component Unit UVSC Foundation 2004	Total 2004	Comparative Total 2003
ASSETS				
Current Assets				
Cash and cash equivalents	$ 26,855,057	$ 809,479	$ 27,664,536	$ 28,071,082
Short term investments (Note 2)	528,436	-	528,436	259,350
Cash on deposit with state agencies	-	-	-	353,735
Accounts receivable, net (Note 3)	4,887,949	-	4,887,949	4,052,956
Notes receivable (Note 3)	293,743	-	293,743	272,352
Prepaid expenses, deferred charges	897,212	19,212	916,424	866,115
Inventories (Note 5)	1,560,979	-	1,560,979	1,584,335
Total Current Assets	35,023,376	828,691	35,852,067	35,459,925
Noncurrent Assets				
Notes receivable, net (Note 3)	1,660,483	4,806,400	6,466,883	1,552,211
Contributed assets held	-	-	-	50,731
Other long term assets	-	5,675,262	5,675,262	5,193,930
Long term investments (Note 2)	427,147	11,637,636	12,064,783	10,242,612
Non depreciable capital assets, net (Note 8)	12,241,515	4,976,964	17,218,479	12,585,532
Depreciable capital assets, net (Note 8)	132,533,824	4,924,905	137,458,729	113,269,353
Total Noncurrent Assets	146,862,969	32,021,167	178,884,136	142,894,369
Total Assets	**181,886,345**	**32,849,858**	**214,736,203**	**178,354,294**
LIABILITIES				
Current Liabilities				
Accounts payable (Note 4)	3,391,549	-	3,391,549	2,443,829
Accrued liabilities (Note 4)	3,389,703	688,388	4,078,091	3,327,768
Other liabilities	621,541	-	621,541	705,151
Deferred revenue (Note 7)	2,123,426	636,101	2,759,527	2,547,139
Current portion of bonds, notes, and capital leases	1,718,426	125,659	1,844,085	1,915,673
Funds held for others	2,369,827	-	2,369,827	1,350,005
Total Current Liabilities	13,614,472	1,450,148	15,064,620	12,289,565
Noncurrent Liabilities (Note 12)				
Accrued liabilities (Note 4)	1,204,757	-	1,204,757	1,109,076
Bonds, notes, and capital leases (Notes 9, 10, and 11)	16,913,350	1,639,172	18,552,522	20,035,412
Total Noncurrent Liabilities	18,118,107	1,639,172	19,757,279	21,144,488
Total Liabilities	**31,732,579**	**3,089,320**	**34,821,899**	**33,434,053**
NET ASSETS				
Invested in capital assets, net of related debt	126,143,563	8,137,038	134,280,601	103,903,799
Restricted for:				
Nonexpendable				
Scholarships	152,764	6,539,693	6,692,457	5,647,677
Expendable				
Scholarships and grants	430,771	14,713,002	15,143,773	10,108,356
U. S. government grants, refundable	1,652,100	-	1,652,100	1,573,022
Loans	821,638	-	821,638	666,594
Capital projects	630,294	-	630,294	3,082,523
Debt service	793,138	-	793,138	776,475
Unrestricted	19,529,498	370,805	19,900,303	19,161,795
Total Net Assets	**$ 150,153,766**	**$ 29,760,538**	**$ 179,914,304**	**$ 144,920,241**

The accompanying notes are an integral part of the Financial Statements

Utah Valley State College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2004 (with comparative data for the year ended June 30, 2003)

	Primary Institution UVSC 2004	Component Unit UVSC Foundation 2004	Total 2004	Comparative Total 2003
REVENUES				
Operating Revenues				
Student tuition and fees (net of allowances of $7,729,089)	$ 52,569,721	$ -	$ 52,569,721	$ 50,478,556
Federal grants and contracts	25,705,562	-	25,705,562	22,744,569
State grants and contracts	4,021,483	-	4,021,483	4,389,793
Private grants and contracts	28,670	-	28,670	4,619
Sales and service of education departments	4,671,255	-	4,671,255	4,295,695
Auxiliary enterprises (net of scholarship allowances of $947,598)	10,722,684	-	10,722,684	11,347,049
Other operating revenues	3,311,051	-	3,311,051	3,734,914
Total operating revenues	**101,030,426**	**-**	**101,030,426**	**96,995,195**
EXPENSES				
Operating Expenses				
Salaries	64,703,625	-	64,703,625	60,575,653
Fringe benefits	23,429,878	-	23,429,878	20,539,643
Student financial aid	16,364,203	528,620	16,892,823	16,279,966
Maintenance and utilities	6,952,818	-	6,952,818	7,130,717
General and administrative	21,789,979	1,612,633	23,402,612	35,700,223
Cost of goods sold - auxiliary enterprises	7,477,785	-	7,477,785	7,536,221
Depreciation	5,762,414	-	5,762,414	5,491,218
Total operating expenses	146,480,702	2,141,253	148,621,955	153,253,641
Operating income (loss)	**(45,450,276)**	**(2,141,253)**	**(47,591,529)**	**(56,258,446)**
NONOPERATING REVENUES (EXPENSES)				
State appropriations	42,858,137	-	42,858,137	40,258,071
Gifts	1,353,191	7,801,308	9,154,499	13,787,141
Investment income (net of Foundation investment expense of $87,736)	600,024	1,423,112	2,023,136	1,276,102
Interest on capital asset-related debt	(1,072,798)	-	(1,072,798)	(1,098,850)
Other nonoperating revenues (expenses)	(287,858)	201,526	(86,332)	(1,204,767)
Net nonoperating revenues (expenses)	43,450,696	9,425,946	52,876,642	53,017,697
Income before other revenues, expenses, gains, or losses	**(1,999,580)**	**7,284,693**	**5,285,113**	**(3,240,749)**
Capital appropriations	29,769,723	-	29,769,723	1,631,836
Capital grants and gifts	194,891	-	194,891	1,626,530
Total other revenues	29,964,614	-	29,964,614	3,258,366
Increase (decrease) in net assets	**27,965,034**	**7,284,693**	**35,249,727**	**17,617**
NET ASSETS				
Net assets--beginning of year	122,444,396	22,475,845	144,920,241	144,902,624
Prior period adjustment of net assets	(255,664)	-	(255,664)	-
Net assets--beginning of year re-stated	122,188,732	22,475,845	144,664,577	144,902,624
Net assets--end of year	$ 150,153,766	$ 29,760,538	$ 179,914,304	$ 144,920,241

The accompanying notes are an integral part of the Financial Statements

Utah Valley State College
Statement of Cash Flows
For the Year Ended June 30, 2004

		Primary Institution UVSC
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	52,137,356
Total cash received from grants and contracts		28,757,889
Payments to suppliers		(36,327,543)
Payments for employee services and benefits		(87,249,037)
Payments for student aid: scholarships and fellowships		(16,364,203)
Total receipts for auxiliary and education departments sales and services		15,461,260
Other operating receipts (payments)		3,253,109
Net Cash Used by Operating Activities		**(40,331,169)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		43,154,632
Gifts from grants for other than capital purposes		1,381,597
Net Cash Used by Noncapital Financing Activities		**44,536,229**
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital grants and gifts received		34,580
Purchases of capital assets		(2,762,973)
Principal paid on capital debt and leases		(1,721,957)
Interest paid on capital debt and leases		(938,742)
Net Cash Used by Capital Financing Activities		**(5,389,092)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		252,027
Investment income received		600,024
Net Cash Provided by Investing Activities		**852,051**
Net Decrease in Cash		**(331,981)**
Cash - Beginning of Year		**27,187,038**
Cash - End of Year	**$**	**26,855,057**
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITY		
Operating Income (Loss)	**$**	**(45,450,276)**
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense		5,762,414
Changes in assets and liabilities		
(increase) decrease in receivables		(1,523,023)
(increase) decrease in inventories		23,356
(increase) decrease in prepaid expenses		(52,680)
increase (decrease) accounts payable		(1,071,791)
increase (decrease) accrued liabilities		884,466
increase (decrease) deferred revenue		160,154
increase (decrease) deposits held for others		1,019,822
increase (decrease) other liabilities		(83,611)
Net Cash Used by Operating Activities	**$**	**(40,331,169)**
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated library books	$	148,311
Donated assets		12,000
Assets contributed by DFCM		29,769,723
Adjustments to fair market value of investments		(27,373)
Total Noncash Activities	**$**	**29,902,661**

The accompanying notes are an integral part of the Financial Statements

Notes

to the

Financial

Statements

Note 1 Summary of Significant Accounting Policies

Nature of Operations

Utah Valley State College (the College) is a state college comprised of two interdependent divisions. The lower division embraces and preserves the philosophy and mission of a comprehensive community college, while the upper division consists of programs leading to baccalaureate degrees in areas of high community demand and interest. This blend of objectives better serves the state, national, and international communities by providing students with a wide variety of proficiencies from which to select.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity* and Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion could cause the financial statements to be misleading or incomplete.

Utah Valley State College is considered a component unit of the State of Utah because it receives appropriations from the State. The financial activity of the College is included in the State's Comprehensive Annual Financial Report.

The Utah Valley State College Foundation (the Foundation) is a separate but affiliated non-profit corporation. The accounts of the Foundation are reported in the Component Unit Column of the financial statements. The Foundation is administered by a Board of Directors comprised of various members of the local community. The College President is a permanent non-voting member of the Board. The College also provides accounting and financial services to the Foundation. The Foundation has been reported as a discrete component unit.

The Foundation issues separate financial statements which are audited by other independent auditors and are available through the College's Institutional Advancement Office upon request. These statements follow the Financial Accounting Standards Board (FASB) guidelines. Footnotes for the Foundation are included accordingly.

Note 1 Summary of Significant Accounting Policies (continued)

Prior-year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2003, from which the summarized information was derived. Some modifications of prior-year numbers were made in order to be comparable to the current fiscal year.

Basis of Accounting

For financial reporting purposes, the College is considered a special purpose government entity engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The College has the option to apply all FASB pronouncements issued after November 30, 1989, unless they conflict with GASB. The College has elected not to exercise this option.

GASB No. 40, *Deposits and Investment Risk Disclosures – an amendment of GASB statement No. 3* was early implemented for the fiscal year ended June 30, 2004. As a result, the disclosures related to deposit and investment risks were changed. The changes are reflected in Note 2.

Cash Equivalents

For the purposes of the Statement of Cash Flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the Public Treasurer's Investment Fund (PTIF) are considered cash equivalents.

Note 1 Summary of Significant Accounting Policies (continued)

Investments

The College accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Changes in unrealized gains (losses) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of Utah. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Inventories are carried at the lower of cost or market on either the first-in, first-out ("FIFO") basis or on the average cost basis.

Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the statement of net assets.

Note 1 Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are recorded at cost on the date of acquisition or fair market value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Buildings, building additions, and building improvements that extend the useful life of the asset or infrastructure, and land improvements are capitalized if the cost is over $50,000. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 40 years for buildings, 30 years for infrastructure and aircraft (less than 15 years old when acquired), 20 years for library collection, 15 years for aircraft (greater than 15 years old when acquired), 10 years for land improvements and works of art, and 3 to 5 years for equipment.

Noncurrent Liabilities

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

Deferred Revenues

Deferred revenues include amounts received for tuition, fees, and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grants and contract sponsors that have not yet been earned.

Compensated Absences

Employee vacation and compensation pay is accrued at year end for financial statement purposes. The liability and expense incurred are recorded at year end as accrued liabilities in the Statement of Net Assets, and as a component of noncurrent liabilities.

Note 1 Summary of Significant Accounting Policies (continued)

Classification of Revenues

The College has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues
Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts, and Federal appropriations, and (4) fees charged to institutional loans.

Nonoperating Revenues
Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating cash flows 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,* such as state appropriations and investment income.

Expenditures

When expenditures are incurred for purposes for which both restricted and unrestricted resources are available, it is the College's general policy to use restricted resources first.

Net Assets—The College's net assets are classified as follows:

Invested in capital assets, net of related debt
This amount represents the College'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.

Note 1 Summary of Significant Accounting Policies (continued)

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 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 the principal.

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

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

Note 2 Deposits and Investments

The College

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 (the Act) that relate to the deposit and investment of public funds.

The College follows the requirements of the Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of College 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 Utah Money Management Council.

Note 2 Deposits and Investments (continued)

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits may not be returned. The College does not have a formal deposit policy for custodial credit risk. As of June 30, 2004, $1,659,852 of the College's bank balances of $1,918,706 was uninsured and uncollateralized.

Investments

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

Statutes authorize the College 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 Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; 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 Act; and the Utah State Public Treasurer's Investment Fund.

Note 2 Deposits and Investments (continued)

Statutes also authorize the College to invest funds acquired by gift, private grant, and the corpus of funds functioning as endowments according to the rules of the Money Management Council. Rule 2 allows the College to invest these funds in any of the above investments or any of the following, subject to satisfying certain criteria: professionally managed pooled or commingled investment funds, or mutual funds which satisfy certain criteria; common stock, convertible preferred stock, or convertible bonds; corporate bonds or debentures; and alternative investments as defined in the rule.

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

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. 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.

Note 2 Deposits and Investments (continued)

As of June 30, 2004, the College had the following investments and maturities:

		Investment Maturities (Years)	
Investment Type	Fair Value	Less than One	One to Five
State of Utah Public Treasurer's Investment Fund	$ 26,796,655	$ 26,796,655	$ -
US Treasury Notes	368,293		368,293
Totals	$ 27,164,948	$ 26,796,655	$ 368,293

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, fixed rate corporate obligations, variable rate negotiable deposits, and variable rate securities to 270-365 days 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 funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, Rule 2 of the Money Management Council does not allow the dollar-weighted average maturity of fixed-income securities to exceed ten years.

Note 2 Deposits and Investments (continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's policy for reducing its exposure to credit risk is to comply with the Act as previously discussed. At June 30, 2004, all College investments were unrated.

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 College's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. For funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, Rule 2 of the Money Management Council limits investments in equity securities and fixed income securities to no more than 5 percent of all funds in any one issuer and no more than 25 percent of all funds in any one industry. No more than 5 percent of all funds may be invested in securities of a corporation that has been in continuous operation for less than 3 years. No more than 5 percent of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments.

The Foundation

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 invested on June 30, 2004, in the PTIF account was $708,736 and was combined with the College's PTIF account. Although this amount is not covered by federal depository insurance, PTIF balances are secured by investments purchased in compliance with the Act.

Note 2 Deposits and Investments (continued)

Deposits – The Foundation

Custodial Credit Risk – The Foundation

Custodial credit risk is the risk that, in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation does not have a formal deposit policy for custodial credit risk. As of June 30, 2004, the total amount deposited in various other financial institutions is $100,743 all of which is insured by the Federal Deposit Insurance Corporation.

Investments – The Foundation

As of June 30, 2004, the Foundation, which is not subject to the Act, had the following investments and maturities:

		Investment Maturities (in Years)		
Investment Type	Fair Value	Less than One	One to Five	Five to Ten
Money Market Funds	$ 630,434	$ 630,434	$ -	$ -
PTIF	708,736	708,736	-	-
Certificates of Deposit	621,815	98,452	523,363	-
US Treasury Notes	1,298,775	102,407	976,560	219,808
Corporate Bonds	1,860,012	103,905	571,456	1,184,651
Mutual Funds	468,548	7,617	-	460,931
	5,588,320	$ 1,651,551	$ 2,071,379	$ 1,865,390
Common and Preferred Stocks	6,758,052			
Totals	$ 12,346,372			

Note 2 Deposits and Investments (continued)

Interest Rate Risk – The Foundation

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.

Credit Risk – The Foundation

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 rating of all Foundation holdings. The Foundation does not have a formal investment policy that limits its investment choices in regard to credit quality ratings.

At June 30, 2004, the Foundation had the following investments and quality ratings:

		Quality Rating	
Investment Type	Fair Value	A	Unrated
Common and Preferred Stocks	$ 6,758,052	$ -	$ 6,758,052
Money Market Funds	630,434	-	630,434
Certificates of Deposit	621,815	-	621,815
PTIF	708,736	-	708,736
US Treasury Notes	1,298,775	-	1,298,775
Corporate Bonds	1,860,012	1,860,012	-
Mutual Funds	468,548	-	468,548
	$ 12,346,372	$ 1,860,012	$ 10,486,360

Note 3 Accounts and Notes Receivable

Accounts receivable consisted of the following at June 30, 2004:

Student tuition and fees	$ 1,301,583
Operating activities	805,847
Auxiliary enterprises	535,871
State grants and contracts	71,102
Federal grants and contracts	2,176,460
DFCM receivables	151,399
	5,042,262
Less allowance for doubtful accounts	(154,313)
Net accounts receivable	$ 4,887,949

Notes receivable consisted of the following at June 30, 2004:

Loans to students	$ 2,045,759
Less allowance for doubtful accounts	(91,533)
Net notes receivable	1,954,226
Less noncurrent portion	(1,660,483)
Current portion	$ 293,743

Note 4 Accounts Payable and Accrued Liabilities

Accounts payable consisted of the following at June 30, 2004:

Federal taxes payable	$ 49,362
State taxes payable	282,821
Payroll payable	680,298
Accrued retirement payable	855,817
Accrued leave payable	2,766,690
Interest payable	157,923
Vendors payable	1,132,510
DFCM payable	1,890,733
Employee deposits payable	169,855
Total Accounts Payable and Accrued Liabilities	$ 7,986,009

Note 5 Inventories

Current unrestricted fund inventories at June 30, 2004, are as follows:

Auxiliary enterprises	$ 1,307,899
Supplies and other inventory	253,080
Total	$ 1,560,979

Note 6 Loans Receivable

Student loans made through the Federal Perkins Loan Program comprise substantially all of the notes receivable at June 30, 2004. Under this perpetual loan program, the federal government provides approximately 75% of the initial funds contributed to the program which in turn are issued as loans to students. The College provides a matching contribution to the fund of 25%. Under certain conditions, loans can be forgiven at annual rates of 10% to 30% of the balance up to maximums of 50% to 100% of the loan. The federal government reimburses the College a portion of the amounts cancelled under these provisions.

As the College determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The College has provided an allowance for uncollectible loans which in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2004, the allowance for uncollectible loans was $91,533.

Note 7 Deferred Revenue

Deferred revenue consists of the following at June 30, 2004:

Prepaid tuition and fees	$ 2,100,108
Grants and contracts	23,318
Total deferred revenue	$ 2,123,426

Note 8 Capital Assets

The following are the changes in capital assets of the College for the year ended June 30, 2004:

	Book Value 6/30/2003	Increases	Decreases	Book Value as of 6/30/2004
Capital Assets not Being Depreciated				
Land	$ 4,285,666	$ 3,278,000	$ -	$ 7,563,666
Land improvements - nondepreciable	3,036,292	-	-	3,036,292
Construction in Process	811,610	1,641,557	(811,610)	1,641,557
Total Nondepreciable	**8,133,568**	**4,919,557**	**(811,610)**	**12,241,515**
Capital Assets Being Depreciated				
Land improvements - depreciable	2,616,084	97,544	-	2,713,628
Infrastructure	4,436,322	-	-	4,436,322
Buildings	120,301,442	28,321,858	-	148,623,300
Equipment	18,137,052	1,337,527	(375,464)	19,099,115
Library books	*3,232,887	338,812	(7,020)	3,564,679
Total Depreciable	**148,723,787**	**30,095,741**	**(382,484)**	**178,437,044**
Less Accumulated Depreciation				
Land improvements - depreciable	1,048,285	233,976	-	1,282,261
Infrastructure	1,011,715	147,877	-	1,159,592
Buildings	26,047,976	3,363,009	-	29,410,985
Equipment	11,274,604	1,847,714	(347,058)	12,775,260
Library Books	*1,112,304	169,838	(7,020)	1,275,122
Total Accumulated Depreciation	**40,494,884**	**5,762,414**	**(354,078)**	**45,903,220**
Capital Assets Being Depreciated, Net	**108,228,903**	**24,333,327**	**(28,406)**	**132,533,824**
Total Capital Assets, Net	**$116,362,471**	**$29,252,884**	**$(840,016)**	**$144,775,339**

*Beginning Balances on library books and accumulated depreciation on library books were reduced by $244,010 to adjust for deletions from prior years that weren't properly recognized. The net asset value remains unchanged on the Statement of Net Assets.

The capital assets of the Foundation for years ending June 30 were as follows:

	2004	2003
Rental Income Property	$ 4,924,905	$ 5,040,448
Land	4,976,964	4,451,964
Total Capital Assets	$ 9,901,869	$ 9,492,412

Note 9 Bonds Payable

Bonds payable consist of the Series 1995A Revenue Cross-Over Refunding Bonds, the 1999 Lease Revenue Bonds, and the 2000 Student Center Building Fee and Unified System Revenue Bonds.

The College issued Student Center Building Fee and Unified System Revenue Cross-Over Refunding Bonds, Series 1995A, in the amount of $4,905,000 on October 15, 1995. The bonds were secured solely by proceeds held in an escrow account until November 1, 2001 (the "Cross-Over Date"). Once the pledge of Pledged Revenues arose under the Indenture on the Cross-Over Date, the 1995A Bonds were secured by a lien on the Pledged Revenues on parity with any additional bonds, notes, or other obligations that may be issued from time to time under the Indenture. To meet the reserve requirement of the 1995A Bonds, a Surety Bond was purchased.

The Municipal Building Authority of Utah County, Utah, issued Lease Revenue Bonds (Utah Valley State College Project), Series 1999, in the amount of $3,480,000 on October 1, 1999. The County, in turn, subleased the Series 1999 Project to the State Board of Regents of the State of Utah on behalf of the College, pursuant to an annually renewable Sublease Agreement dated as of September 1, 1999. The proceeds of the 1999 Bonds were used to finance the purchase of the Education Building and associated land, to fund a debt service reserve fund, and to pay issuance expenses incurred in connection with the issuance and sale of the 1999 Bonds.

The State Board of Regents of the State of Utah issued Student Center Building Fee and Unified System Revenue Bonds, Series 2000, for and on behalf of the College in the amount of $11,180,000 on May 1, 2000. The proceeds of the 2000 Bonds have been and will be used for the purpose of financing the costs of construction of an expansion to the College's existing Student Center, purchasing a surety bond to fund a debt service reserve account, and paying the costs associated with the issuance of the 2000 Bonds.

The College believes it is currently in compliance with all bond covenants.

Note 9 Bonds Payable (continued)

The bonds payable at June 30, 2004 consist of the following:

Description	Original Issue	Balance June 30, 2004	Due Within One Year
1995A UVSC Cross-Over Refunding Obligation, due in annual installments through 2011, interest rates 4.75% to 5.7%	$4,905,000	$3,905,000	$540,000
Less Discount	(20,206)	(9,509)	(1,189)
Total Net 1995A	4,884,794	3,895,491	538,811
1999 UVSC Lease Revenue Obligation, due in annual installments through 2014, interest rates 3.85% to 4.85%	3,480,000	2,780,000	195,000
Less Discount	(9,926)	(6,824)	(620)
Total Net 1999	3,470,074	2,773,176	194,380
2000 UVSC Student Center Building Fee and Unified System Revenue Obligation, due in annual installments through 2020, interest rates 4.85% to 5.8%	11,180,000	9,935,000	580,000
Plus Premium	9,171	7,087	417
Total Net 2000	11,189,171	9,942,087	580,417
Total Net Bonds	$19,544,039	$16,610,754	$1,313,608

Note 9 Bonds Payable (continued)

Principal and interest on the 1995 and 2000 Bonds are secured by Pledged Revenues which consist of all (1) Net Operating Revenues of the Unified System, (2) Student Center Building Fees, (3) Investment Income, and (4) HUD Subsidy grant. The Unified System consists of the existing Student Services facilities including the following: the Student Center, the Bookstore, and all College Food Services. Pledged Revenues totaled $2,986,519 for fiscal year 2004.

The College has not pledged any of its revenues for the payment of the 1999 Bonds, but it can only apply College Funds for the principal and interest payments. College Funds are those moneys remaining from Pledged Revenues after the commitments of the 1995 Bond and 2000 Bond have been paid.

In addition, the 1995 Bonds are insured by a Surety Bond issued by the Municipal Bond Insurance Association and the 2000 Bonds are insured by a Surety Bond issued by Ambac Assurance Corporation.

The 1999 Bonds are also secured by a Reserve Fund held in trust at US Bank. The balance of this fund as of June 30, 2004 was $397,732.

The scheduled maturities of bonds payable at June 30, 2004, are as follows:

Year	Principal	Interest	Total
2005	$1,315,000	$877,886	$2,192,886
2006	1,380,000	809,463	2,189,463
2007	1,460,000	736,095	2,196,095
2008	1,535,000	657,348	2,192,348
2009	1,620,000	572,138	2,192,138
2010-2014	6,550,000	1,533,409	8,083,409
2015-2019	1,955,000	513,868	2,468,868
2020-2021	805,000	49,868	854,868
Total	$16,620,000	$5,750,075	$22,370,075

Note 10 Operating Leases

The College leases buildings, office space, airport facilities, and land under non-cancelable operating leases. Total costs for such leases were $566,077 for the year ended June 30, 2004. The following is a schedule by year of future operating lease payments for the previously described operating leases:

Fiscal Year Ending June 30	Operating Leases
2005	$517,735
2006	457,603
2007	454,204
2008	444,007
2009	444,007
2010-2014	1,446,297
2015-2019	201,469
2020-2024	211,605
2025-2029	116,450
2030-2034	11,060
Total Future Minimum Lease Payments	$4,304,437

Note 11 Capital Lease Obligations

The College has acquired certain equipment under various lease-purchase contracts or other capital lease agreements. The cost of College assets held under capital leases totaled $3,150,812 as of June 30, 2004. Accumulated depreciation of leased equipment totaled $875,686 at June 30, 2004.

The assets acquired through capital leases are as follows:

Asset:	
Aircraft	$ 2,094,318
Less: Accumulated Depreciation	(479,116)
Vehicles	220,832
Less: Accumulated Depreciation	(48,391)
Sun Server	352,653
Less: Accumulated Depreciation	(117,873)
Heidelberg Press	294,359
Less: Accumulated Depreciation	(63,388)
Equipment	188,651
Less: Accumulated Depreciation	(166,919)
Total Net Capital Lease Assets	$ 2,275,126

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30	Capital Leases
2005	$ 476,987
2006	356,286
2007	203,764
2008	203,764
2009	200,827
2010-2014	934,658
Total Future Minimum Lease Payments	2,376,286
Amounts Representing Interest	(355,264)
Present Value of Net Minimum Lease Payments	$ 2,021,022

Note 12 Changes in Noncurrent Liabilities

The following is a summary of the changes to the College's noncurrent liabilities during the fiscal year ended June 30, 2004.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue Bonds	$17,830,000	$ -	$(1,210,000)	$16,620,000	$1,315,000
Less deferred amounts for discounts and premiums	(10,638)	-	1,392	(9,246)	(1,392)
Total Bonds payable	17,819,362	-	(1,208,608)	16,610,754	1,313,608
Capital Leases	2,117,235	415,744	(511,957)	2,021,022	404,818
Total Bonds and Capital Leases	19,936,597	415,744	(1,720,565)	18,631,776	1,718,426
Early Retirement	805,380	522,372	(471,935)	855,817	369,332
Compensated Absences	2,324,911	1,749,214	(1,307,435)	2,766,690	2,048,418
Total Noncurrent Liabilities	$23,066,888	$2,687,330	$(3,499,935)	$22,254,283	$4,136,176

The Foundation's liabilities for the years ending June 30 were as follows:

	2004	2003
Notes Payable	$1,764,830	$2,014,488
Deferred annuity payments	688,390	726,850
Prepaid rental income	636,100	583,867
Total noncurrent liabilities	$ 3,089,320	$ 3,325,205

Note 13 Pension Plans and Retirement Benefits

Plan Description

The College contributes to the State and School Contributory Retirement System and State and School Noncontributory Retirement System, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (URS). URS provides refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The URS are established and governed by the respective chapters of Title 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Title 49 provides for the administration of the URS and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor with the exception of the State Treasurer. The URS issues a publicly available financial report that includes financial statements and required supplementary information for the State and School Contributory Retirement System and State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 560 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy

Plan members in the State and School Contributory Retirement System are required to contribute six percent of their annual covered salary (all or part may be paid by the employer for the employee) and the College is required to contribute 7.21 percent of their annual covered salary. In the State and School Noncontributory Retirement System, the College is required to contribute 13.2 percent of their annual covered salary. The contribution rates are actuarially determined rates and are broken down to 11.7 percent for the Noncontributory Retirement System and 1.5 percent to a 401(k) Plan. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Note 13 Pension Plans and Retirement Benefits (continued)

The College contributions to the URS were:

	June 30, 2004	June 30, 2003	June 30, 2002
State and School Contributory Retirement System	$181,802	$170,758	$169,755
Noncontributory Retirement System	$2,005,573	$1,754,214	$1,698,139
401(k) Plan	$257,125	$253,011	$244,928

The contributions were equal to the required contributions for each year.

Teacher's Insurance and Annuity Association provides individual retirement fund contracts with each participating employee. Benefits provided to retired employees are generally based on the value of the individual contracts and the estimated life expectancy of the employee at retirement, and are fully vested from the date of employment. Employees are eligible to participate from the date of employment and are not required to contribute to the fund.

For the year ended June 30, 2004, the College's contribution to this defined contribution plan was 14.2 percent of the employee's eligible annual salary or $4,418,499. The College has no further liability once annual contributions are made.

In addition to the pension benefits described above, the College provides an early retirement option to qualified employees who are approved by the administration in accordance with College policy as approved by the State Board of Regents. Eligible employees are those who retire from the College on or after age 57 and whose combined total of age and years of service is 75 or greater. Benefits are payable for five years or until the retiree reaches age 65, whichever occurs first. The benefits include a semi-monthly stipend equal to 20 percent of the retiree's salary at the time of active employment along with health care and life insurance. During the fiscal year ended June 30, 2004, 30 employees participated in the early retirement plan, of which 30 retirees received health care and life insurance benefits and 29 received stipends. The future cost of these retiree stipends, health care and life insurance benefits have been accrued at present value in the financial statements. These benefits are funded on a pay-as-you-go basis from current funds each year. For the year ended June 30, 2004, the expenses for the 20 percent incentive stipend were $258,368 and the expenses for health care and life insurance were $213,566.

Note 14 Risk Management

Due to the diverse risk exposure of the College, the insurance portfolio contains a full variety of coverage. The College participates in basic general liability, tort claim coverage, directors and officers liability, and property and casualty programs provided by the State of Utah Department of Risk Management. The College's liabilities for this policy are limited to the cost of premiums. In addition to these basic policies, the College's Department of Risk, Plant, and Property Management establishes guidelines in risk assessment, risk avoidance, risk transfer, and risk acceptance.

The College's buildings and contents are insured for replacement value. Each loss incident is subject to a $1,000 deductible.

Note 15 Commitments and Contingent Liabilities

The College, through an Interlocal Cooperation Agreement (Agreement), is a participant with Utah County (County) in a joint venture to operate the McKay Events Center (Center) located on the College's campus. The Agreement provides that the title to the Center be held by the College and neither the County nor any other party may obtain any property interest in the land or the facility. The agreement also provides that in consideration of the financial contribution made by the County, at least 40 percent of the usage of the Center be for public and/or community use. The investment in the Center and the operating results are accounted for in the College's financial statements. There are no separately issued financial statements for this joint venture.

The College participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. It is highly unlikely that any disallowances would be material.

In conjunction with the Division of Facilities and Construction Management (DCFM), the College entered into a contract with Chevron Energy Solutions Company (ESCO) to provide energy saving solutions to the College. Fifteen payments of interest of $34,715.59 will be paid by the DCFM out of an escrow account. The College will pay 73 rental payments of varied amounts beginning November 2005.

Note 15 Commitments and Contingent Liabilities (continued)

The DFCM administers most of the construction of facilities for state institutions, maintains records, and furnishes cost information for recording capital assets on the books of the College. Construction projects are recorded on the books of the College as funds are expensed, or when projects are completed if funded through State Appropriations administered through DFCM.

As of June 30, 2004, the College had outstanding commitments to DFCM for the construction of the Wasatch Campus Building, the Baseball Stadium, the Pedestrian Underpass, and HVAC repairs totaling $2,147,803. These commitments represent funds needed in the future and are not recorded on the books.

Note 16 Natural Classifications with Functional Classifications

The College's operating expenses by functional classification were as follows:

Year Ended June 30, 2004
Natural Classification

Functional Classification	Salaries	Fringe Benefits	Financial Aid	Maintenance	General and Administrative	Auxiliary	Depreciation	Total
Instruction	$ 35,147,614	$ 12,152,416	$ 13,831	$ 610,841	$ 6,370,813	$ -	$ -	$ 54,295,515
Academic Support	6,367,903	2,511,923	33,858	162,795	2,872,177	-	-	11,948,656
Student Services	6,759,089	2,851,210	116,318	113,396	2,107,928	-	-	11,947,941
Institutional Support	8,906,995	3,498,589	3,156,921	871,445	6,234,487	-	-	22,668,437
Operation and Maintenance of Plant	3,140,020	1,576,834	-	4,893,661	2,129,204	-	-	11,739,719
Student Financial Aid	1,707,262	13,638	13,990,363	144	228,934	-	-	15,940,341
Public Service	100,282	41,593	450	-	17,106	-	-	159,431
Auxiliaries	2,574,460	783,675	(947,538)	300,536	1,829,330	7,477,785	-	12,018,248
Depreciation	-	-	-	-	-	-	5,762,414	5,762,414
Total Expenses	**$ 64,703,625**	**$ 23,429,878**	**$ 16,364,203**	**$ 6,952,818**	**$ 21,789,979**	**$ 7,477,785**	**$ 5,762,414**	**$ 146,480,702**

Year Ended June 30, 2003
Natural Classification

Functional Classification	Salaries	Fringe Benefits	Financial Aid	Maintenance	General and Administrative	Auxiliary	Depreciation	Total
Instruction	$ 33,029,518	$ 10,658,365	$ 59,238	$ 866,785	$ 5,985,177	$ -	$ -	$ 50,599,083
Academic Support	6,004,889	2,226,256	53,528	125,322	3,874,337	-	-	12,284,332
Student Services	6,489,477	2,531,758	48,100	108,918	2,726,081	-	-	11,904,334
Institutional Support	8,100,704	3,112,065	125,298	1,018,159	6,927,990	-	-	19,284,216
Operation and Maintenance of Plant	2,977,264	1,334,995	-	4,621,826	1,244,221	-	-	10,178,306
Student Financial Aid	1,371,290	4,669	16,022,219	4,072	117,852	-	-	17,520,102
Public Service	109,854	43,041	850	65	26,761	-	-	180,571
Auxiliaries	2,487,663	627,638	(808,173)	385,570	2,027,866	7,536,221	-	12,256,785
Other	4,994	856	-	-	9,127	-	-	14,977
Depreciation	-	-	-	-	-	-	5,491,218	5,491,218
Total Expenses	**$ 60,575,653**	**$ 20,539,643**	**$ 15,501,060**	**$ 7,130,717**	**$ 22,939,412**	**$ 7,536,221**	**$ 5,491,218**	**$ 139,713,924**

Note 17 Subsequent Events

In August 2004, the College issued two new bonds to finance the construction of a new baseball stadium and to legally defease the Student Center Building Fee and Unified System Revenue Cross-Over Refunding Bonds, Series 1995A; the Municipal Building Authority of Utah County, Utah, Lease Revenue Bonds (Utah Valley State College Project), Series 1999; and the State Board of Regents of the State of Utah Student Center Building Fee and Unified System Revenue Bonds, Series 2000.

The Municipal Building Authority of Utah County, Utah issued Lease Revenue Bonds (Utah Valley State College Project), Series 2004A (Federally Taxable) in the amount of $3,900,000 and Series 2004B in the amount of $2,600,000 on August 3, 2004. The County will, in turn, sublease the Series 2004 Project to the State Board of Regents of the State of Utah on behalf of the College, pursuant to a Sublease Agreement dated as of August 1, 2004. The proceeds of the MBA/UVSC 2004 Bonds will be used to refund all of the Authority's outstanding 1999 Bonds, finance the acquisition and construction of a baseball stadium and related improvements, satisfy a reserve fund requirement, and pay the costs associated with the issuance of the 2004 Bonds.

The State Board of Regents of the State of Utah issued Student Center Building Fee and Unified System Revenue Bonds, Series 2004A, in the amount of $11,020,000 and Series 2004B (Federally Taxable) in the amount of $4,035,000, for and on behalf of the College on August 3, 2004. The proceeds of the SBR/UVSC 2004 Bonds will be used to refund all of the State Regent's outstanding 2000 Bonds and the 1995A Bonds, satisfy a reserve fund requirement, and pay the costs associated with the issuance of the 2004 Bonds.

Note 18 Prior Period Adjustments

An adjustment was made to reduce beginning net assets of the College by $255,664 for assets that were determined to be assets of Mountainland Applied Technology College for whom the College has been the active fiscal agent.

Note 19 Related Party Transactions

The College entered into various agreements involving the Foundation:

A. Rental Expense. The College leased all of the Foundation buildings 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 building and provide a return of the Foundation's investment in the buildings.

The future minimum annual rents to be expensed under the lease agreements for the next five years ending June 30 are $375,771.

The Foundation records lease revenue on the straight-line method. The difference between the amounts 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 in succeeding years. The balance on the financial statements of the Foundation on June 30, 2004 and 2003 is $636,100 and $583,868, respectively. The prepaid rental income is amortized over the remaining life of the 15-year lease on the straight-line method.

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 purchase 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.

UTAH VALLEY STATE COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

THIS REPORT IS PREPARED BY THE OFFICE OF THE
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