UTAH VALLEY UNIVERSITY

A COMPONENT UNIT OF THE STATE OF UTAH

UVU 2013

ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS

PRESIDENT'S MESSAGE

Utah Valley University continues to cultivate an educational model uniquely suited to meet the needs of a changing and complex student population. Rather than follow the strict, traditional path of a rising university (a model that the nation is finding virtually impossible to support in mass), UVU holds firm to a model of integration that combines the virtues of an accessible community college with that of a high quality teaching university. Happily, the success of this unique educational model is becoming self-evident with the growing number of accomplishments from our students, among other things.

During the 2012-2013 school year, the unexpected combination of more students leaving school to go to work and the LDS Church's missionary age change led to a decline of roughly 9% of our 18-22 year old students. Even with this decline in attendance, UVU has maintained a strong culture of inclusion, engagement, and seriousness. UVU has led the state in research and support for women in education both as students and as professionals. UVU's Personal Financial Planning program in the Woodbury School of Business has become a Top 10 program in the country in just three years. Under structured enrollment, UVU retains virtually every student who signs up at the very start of the semester, and then adds more students on the block. As a result, the retention of first-time, full-time, bachelor degree seeking students has increased roughly 24% in the last few years.

Looking forward to the 2013-2014 school year, UVU will cut the ribbon on a new nearly $3 million Wee Care Center paid for by privately-raised funds. This center offers many more students the flexibility needed to attend school by providing access to an affordable and beautiful care center for their children. UVU will be in its second year of a seven-year $26 million statewide GEAR UP grant to help low-income, first-generation students better prepare for college. Vivint and its CEO, Todd Pedersen are donating $2 million to UVU for the development of a professional sales track in the Woodbury School of Business. This program fulfills a need that the broader business community has been calling for, for some time—a program for developing highly trained sales professionals.

UVU continues to receive the lowest level of support of any institution in the state. The Board of Regents' budget request for the 2014-2015 school year makes a bold and targeted focus for equity funding for those institutions with the most acute equity needs. If this budget is approved, UVU expects to receive 42% of all equity funding allocated to higher education. Such support will be vital as UVU anticipates another period of accelerated growth.

At a time when higher education is under the most severe kinds of cross-cutting pressures, UVU is breaking molds and forging a distinctive path. We are like no other, and in pursuing that innovative path, I am convinced that we are headed for educational gold—an ability to provide a learning environment as rigorous as it is accessible, as it rivals the largest institutions in the nation in terms of size and real world impact. Not every institution should follow our lead, but if more did, many of the crises we now see in higher education today would fade away.

Sincerely,

Matthew S. Holland
President

OFFICE OF THE
UTAH STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Trustees, Audit Committee,
and
Dr. Matthew S. Holland, President
Utah Valley University

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Utah Valley University (the University) and its discretely presented component unit foundation, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, as listed in the table of contents. The University is a component unit of the State of Utah.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit foundation. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit foundation as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The President's Message has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on this other information.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Office of the Utah State Auditor

Office of the Utah State Auditor
December 4, 2013


LOSEE CENTER

MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and results of activities of Utah Valley University (the University) for the year ended June 30, 2013, with comparative information for the year ended June 30, 2012. This discussion is prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow these sections.

The Utah Valley University 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 University's Institutional Advancement Office.

FINANCIAL HIGHLIGHTS

- The University's net position increased by $8.9 million during the fiscal year.
- $31.0 million was added in construction in progress for the construction of a new Student Life and Wellness building.
- Grants and contracts decreased by $3.5 million during the fiscal year.
- State appropriations increased by $3.0 million during the fiscal year.
- Enrollment decreased by 6.6% in total headcount and 5.6% in full time equivalents.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The financial statements are prepared in accordance with Governmental Accounting Standards Board principles. Three financial statements are presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position presents financial information on all of the University's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the University is improving or deteriorating. The Statement of Net Position is a point-in-time financial statement. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the University. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), deferred inflows and outflows, and net position. 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 Position are able to determine the assets available for continued operations of the University. A determination can also be made as to the debts owed to vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of resources availability for expenditure by the University.

Net position is divided into three major categories: net investment in capital assets, restricted, and unrestricted. The first category, net investment in capital assets, provides the University's equity in property, plant, and equipment owned by the University. The second net position category is restricted, which is divided into two subcategories, nonexpendable and expendable. The corpus of nonexpendable restricted net position is only available for investment purposes. Net position resources categorized as expendable restricted are available for expenditure by the University 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 position. Unrestricted net position is available for expenditure for any lawful purpose of the University.

Statement of Net Position, Condensed

	June 30, 2013	June 30, 2012 (As Restated)	Change	% Change
ASSETS				
Current assets	$ 109,884,637	$ 105,008,362	$ 4,876,275	4.6%
Noncurrent assets	35,603,513	58,732,820	(23,129,307)	(39.4%)
Capital assets, net	301,462,574	271,265,215	30,197,359	11.1%
Total assets	**446,950,724**	**435,006,397**	**11,944,327**	**2.7%**
Deferred Outflows of Resources	532,717	628,222	(95,505)	(15.2%)
LIABILITIES				
Current liabilities	31,268,711	23,488,678	7,780,033	33.1%
Noncurrent liabilities	72,973,768	77,775,341	(4,801,573)	(6.2%)
Total liabilities	**104,242,479**	**101,264,019**	**2,978,460**	**2.9%**
NET POSITION				
Net invested in capital assets	254,463,421	253,733,321	730,100	0.3%
Restricted expendable	5,303,599	10,523,690	(5,220,091)	(49.6%)
Unrestricted	83,473,942	70,113,589	13,360,353	19.1%
Total net assets	**$ 343,240,962**	**$ 334,370,600**	**$ 8,870,362**	**2.7%**

The increase in current assets held by the University of $4.9 million is mainly due to an increase in investments of $11.2 million. The increase in investments is offset by a decrease in cash of $3.7 million and a decrease of $1.7 million in accounts receivable. The overall decrease in accounts receivable is due to the timing of Federal reimbursement grants, an increase in the allowance for uncollectible accounts, and an increase in the estimate for accounts that are considered long term.

Noncurrent assets decreased due to the use of bond proceeds for the construction of the Student Life and Wellness Building ($31.1 million). The decrease in cash was offset by an increase in noncurrent investments of $7.5 million.

The University made various capital asset additions during fiscal year 2013. The most significant addition was in construction in progress related to the new Student Life and Wellness building and parking structure. A total of $35.9 million was added to construction in progress. A number of other building additions and remodels were made and various pieces of equipment were purchased and some capital assets were disposed of during the year. The net cost of capital asset increases and decreases totaled $40.5 million. This net increase in capital assets was offset by net depreciation expense of $10.3 million, which nets to an increase in capital assets of $30.2 million.

Current liabilities increased this fiscal year mainly due to an increase in accounts payable. The accounts payable increase is attributed to the construction of the Student Life and Wellness building and parking structure. The State Division of Facilities Construction and Management (DFCM) is managing the construction, therefore, the payable related to construction is due to the State.

Statement of Revenues, Expenses, and Changes in Net Position

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

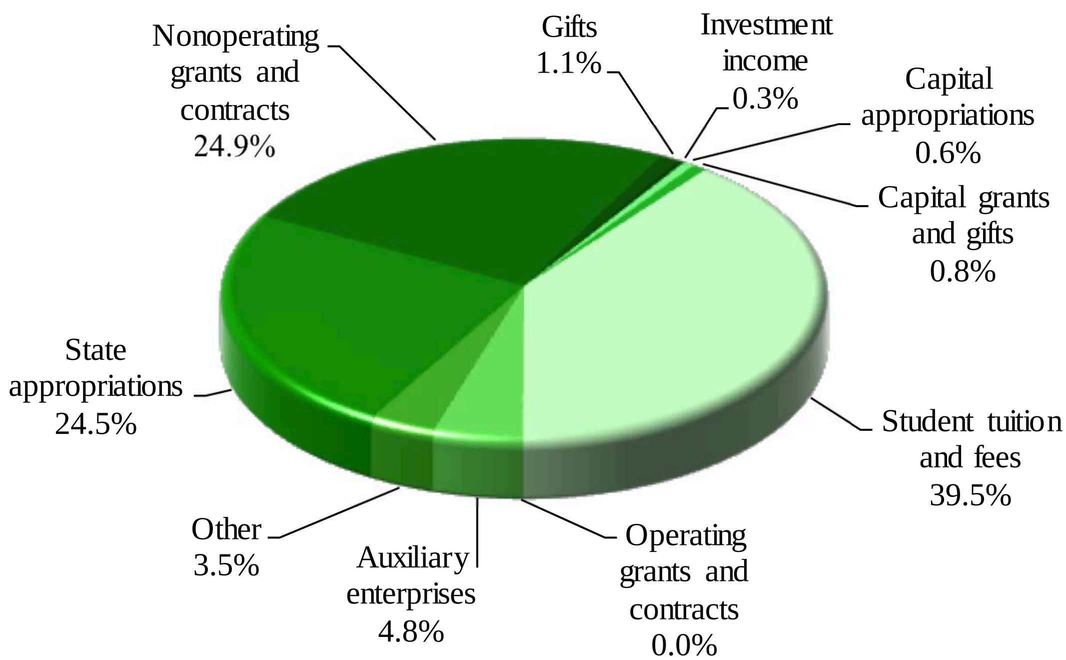
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are expenses paid to acquire or produce the goods and services provided in return for operating revenues and to carry out the mission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

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

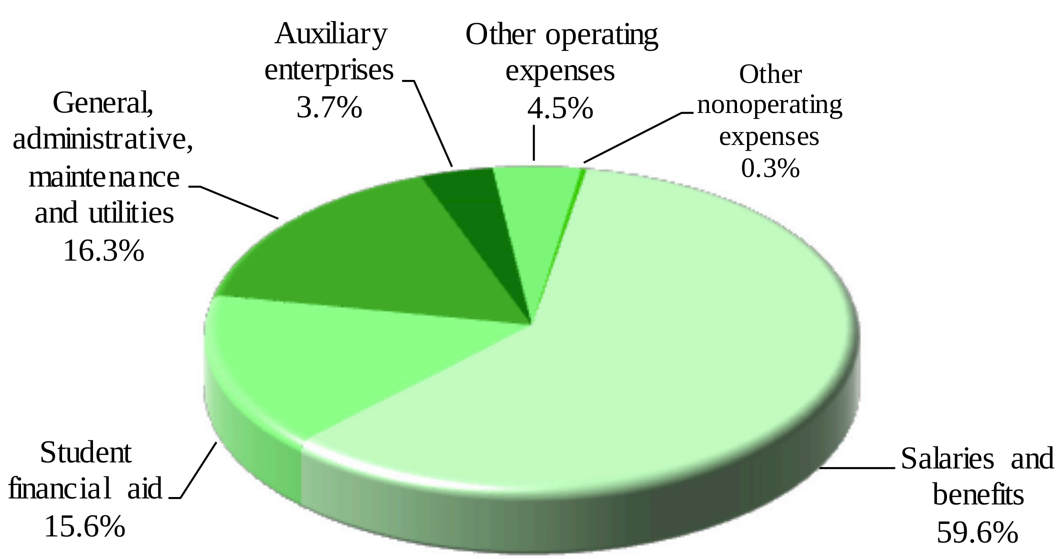
	June 30, 2013	June 30, 2012 (As Restated)	Change	% Change
REVENUES				
Operating revenues				
Student tuition and fees	$ 109,085,350	$ 107,677,399	$ 1,407,951	1.3%
Grants and contracts	16,593	9,995	6,598	66.0%
Auxiliary enterprises	13,270,402	13,504,015	(233,613)	(1.7%)
Other	9,734,326	9,872,572	(138,246)	(1.4%)
Total operating revenues	**132,106,671**	**131,063,981**	**1,042,690**	**0.8%**
EXPENSES				
Operating expenses				
Salaries and benefits	159,404,850	155,100,169	4,304,681	2.8%
Student financial aid	41,592,881	41,076,911	515,970	1.3%
General and administrative, maintenance and utilities	43,693,931	45,413,919	(1,719,988)	(3.8%)
Auxiliary enterprises	9,915,463	10,715,065	(799,602)	(7.5%)
Other	12,028,304	11,191,332	836,972	7.5%
Total operating expenses	266,635,429	263,497,396	3,138,033	1.2%
Operating loss	**(134,528,758)**	**(132,433,415)**	**(2,095,343)**	**1.6%**
NONOPERATING REVENUES (EXPENSES)				
State appropriations	67,617,025	64,588,149	3,028,876	4.7%
Grants and contracts	68,693,153	72,182,811	(3,489,658)	(4.8%)
Gifts	3,085,694	2,256,204	829,490	36.8%
Investment income	884,958	690,466	194,492	28.2%
Other nonoperating revenues (expenses)	(729,058)	(1,929,306)	1,200,248	(62.2%)
Net nonoperating revenues	139,551,772	137,788,324	1,763,448	**1.3%**
Income before other revenues	**5,023,014**	**5,354,909**	**(331,895)**	**(6.2%)**
Capital appropriations	1,724,808	36,653,518	(34,928,710)	(95.3%)
Capital grants and gifts	2,122,540	12,305,545	(10,183,005)	(82.8%)
Other revenues	3,847,348	48,959,063	(45,111,715)	(92.1%)
Increase in net assets	**8,870,362**	**54,313,972**	**(45,443,610)**	**(83.7%)**
Net position – beginning	334,370,600	280,056,628	54,313,972	19.4%
Net position - ending	**$ 343,240,962**	**$ 334,370,600**	**$ 8,870,362**	**2.7%**

The following graphs illustrate operating and nonoperating revenues and expenses as a percent of the total for the year ended June 30, 2013.

Operating and Nonoperating Revenues



Operating and Nonoperating Expenses



The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in net position of $8.9 million. Operating revenues increased $0.8 million. Tuition and fees accounted for the increase with a $1.4 million increase over the prior reporting period due mainly to an overall increase in tuition rates of 4.4%. The increase in student tuition and fees revenue was offset by a decrease in Auxiliary enterprises revenue and other revenue of $0.2 million and $0.1 million respectively.

Operating expenses increased by $3.1 million or 1.2%. The majority of the increase was due to increases in salaries and benefits. Salaries and benefits increased by $4.3 million or 2.8% due to an increased need for instructors as well as equity and retention increases. Due to accreditation requirements, many full-time instructors were hired to replace adjunct professors. The increase occurred in benefits due to the increase in salaries which subsequently increased the amount of taxes and retirement contributions paid by the University. The University also saw an increase in the amount of medical claims paid under the University's self-funded medical and dental insurance plan.

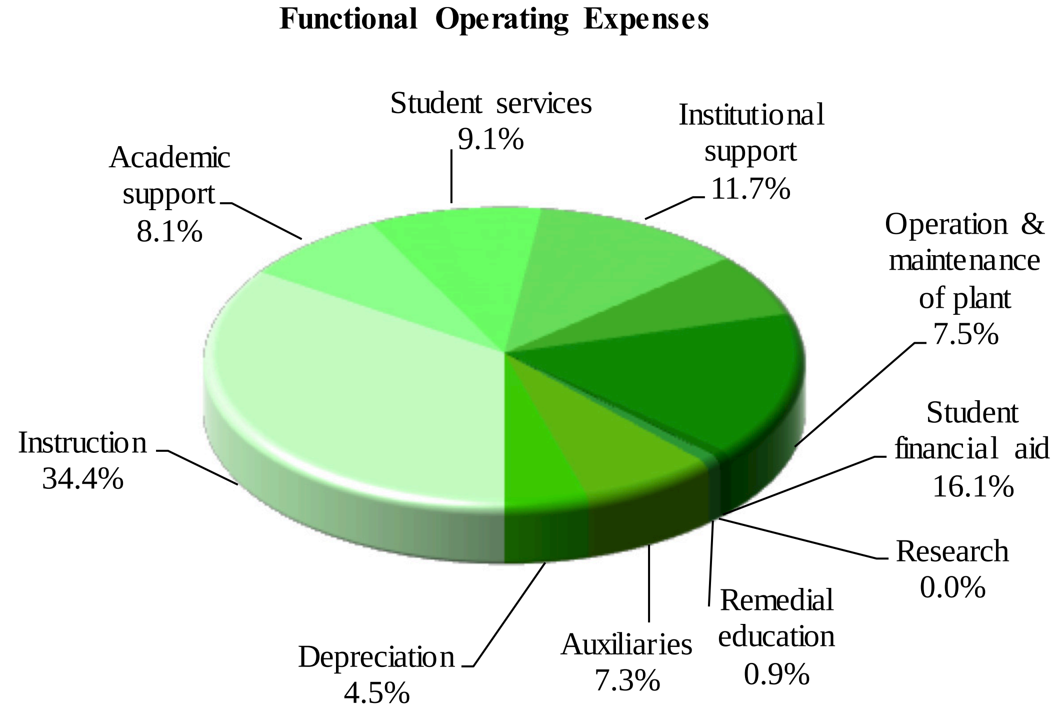
General and administrative, and maintenance and utilities expenses saw an overall decrease of $1.7 million or 3.8%. Accounting for that change were decreases in computer and software purchases, office furniture purchases, and instructional equipment and supplies. Most of the increases in the prior year were due to the new science building being completed and those same purchases were not needed in the current year.

Total nonoperating revenues and expenses increased by $1.8 million or 1.3%. Most of this increase was due to an increase in State appropriations by $3.0 million and a decrease in Federal grants and contracts of $3.4 million. There was a decrease in interest on capital related debt of $1.2 million.

The following is a summary of the University's expenses by programmatic (functional) classification for the years ended June 30, 2013, and 2012:

	June 30, 2013	June 30, 2012	Change	% Change
Operating Expenses				
Instruction	$ 91,598,177	$ 89,838,842	$ 1,759,335	2.0%
Academic support	21,580,385	20,623,841	956,544	4.6%
Student services	25,618,346	23,837,416	1,780,930	7.5%
Institutional support	31,238,538	32,781,827	(1,543,289)	(4.7%)
Operation & maintenance	18,404,983	19,807,197	(1,402,214)	(7.1%)
Student financial aid	42,302,265	42,278,327	23,938	0.1%
Public service	1,854,763	790,157	1,064,606	134.7%
Research	122,111	52,416	69,695	133.0%
Remedial education	2,317,951	2,211,471	106,480	4.8%
Auxiliaries	19,569,606	20,084,570	(514,964)	(2.6%)
Depreciation	12,028,304	11,191,332	836,972	7.5%
Total Operating Expenses	**$ 266,635,429**	**$ 263,497,396**	**$ 3,138,033**	**1.2%**

The following graph illustrates functional operating expenses as a percent of the total for the year ended June 30, 2013.



The $1.8 million increase in instruction related costs are due to an increase of $3.2 million in salaries and benefits and an offsetting decrease in general and administrative costs of $1.2 million. Costs associated with academic support increased from the prior year with an increase of $1.0 million or 4.6%. The increase was due primarily to an increase of $1.2 million in salaries and benefits a $0.2 million decrease in general and administrative costs.

Costs associated with student services increased by $1.8 million with $1.1 million of the increase being related to increases in general and administrative costs.

Costs related to institutional support saw a decrease of $1.5 million of which $1.6 million of the decrease is related to salary and benefit decreases with an increase in maintenance costs of $0.1 million.

Operation and maintenance of plant expenditures decreased $1.4 million due to general and administrative costs decreasing by $2.6 million and maintenance costs increasing by $0.9 million.

The functional expense of student financial aid remained basically unchanged from the prior year.

Public service saw an increase of $1.1 million which was primarily due to an increase in salaries and benefits of $0.7 million.

Auxiliaries experienced a decrease in expenses of $0.5 million due mostly to a decrease in cost of goods sold of $0.8 million. The decrease in cost of goods was offset by an increase in salaries and benefits of $0.2 million.

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 University during the year. The statement is divided into five sections. The first section deals with operating cash flows and shows the net cash used by the operating activities of the University. 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 deals with the cash used for the acquisition and construction of capital related items. The fourth section details the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. 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 Position.

Statement of Cash Flows, Condensed

	June 30, 2013	June 30, 2012	Change	% Change
Cash provided (used) by:				
Operating activities	$ (120,826,977)	$ (122,500,097)	$ 1,673,120	(1.4%)
Noncapital financing activities	137,199,146	132,741,454	4,457,692	3.4%
Capital and related financing activities	(33,246,178)	39,934,111	(73,180,289)	(183.3%)
Investing activities	(18,004,998)	690,556	(18,695,554)	(2,707.3%)
Change in cash	(34,879,007)	50,866,024	(85,745,031)	(168.6%)
Cash - beginning of year	147,898,673	97,032,649	50,866,024	52.4%
Cash – end of year	**$ 113,019,666**	**$ 147,898,673**	**$(34,879,007)**	**(23.6%)**

The University's cash decreased by $34.9 million due to a decrease in cash from operating and investing activities and a decrease in cash provided by capital and related financing activities. The decrease in cash provided by capital and related financing activities of $33.2 million is due to using bond proceeds in the construction of the Student Life and Wellness Building and parking structure. Compared to the prior year, the decrease of $1.7 million in cash related to operating activities is due primarily to a decrease in payments made to vendors of $4.6 million for goods and services and an increase in tuition and fees of $1.1 million, with an offsetting decrease in payment for employee services and benefits of $3.6 million. The decrease of $26.4 million in cash related to investing activities is due to the purchase of investments.

OUTLOOK

The University's overall financial position is strong and in spite of the current economic conditions the outlook for the future looks bright. The economy of the State of Utah has weathered the recent economic struggles better than most states but it is not without its own challenges. The State is expecting the economy to gradually strengthen during 2014. State appropriations for higher education are expected to remain at 2013 levels during this economic recovery period.

Total student enrollment decreased by 6.6% and tuition increased by 4.4% or $1.3 million, for fiscal year 2013. During fall of 2013 the University experienced a decrease in enrollment of 3.2% over

Fall of 2012. Tuition and fees as a percent of total revenues (39.5%) is greater than the percentage of State appropriations as a percentage of total revenue 24.5% for the University, therefore, the expectation of appropriations being held at 2013 amounts will be tempered by the increase in tuition and fees collected.

The University is projecting enrollment in the next year to be about the same or slightly lower. There still may be some reduction in students as a result of many high school graduates taking time off from school to perform missionary service for The Church of Jesus Christ of Latter-day Saints, the dominant religion in the area. In 2012, the Church changed their rules and reduced the age of missionary service from age 19 to 18 for men and from 21 to 19 for women. The University is still predicting growth over the next ten years and the University is making every effort to meet the challenges related to growth, while continuing to preserve the standards of excellence and maintaining its commitment to engaged learning.

The University will continue to take a conservative approach to acquiring debt for construction and expansion of facilities. Construction of the new science building was completed in the Fall of 2011. At the end of fiscal year 2012 the University began constructing a new Student Life and Wellness building, which will be completed during fiscal year 2014. The Student Life and Wellness building will be 170,000 square feet and the 153,000 square foot parking structure will both be completed in 2014. The total cost of the project is approximately $49.2 million.

The legislature approved a new classroom building the will begin construction in fiscal year 2014. The project will cost approximately $42 million and will be 250,000 square feet.

Given the challenges that exist, Utah Valley University is well positioned to overcome the challenges of growth and future economic conditions. The University will make the necessary investments which will secure an even brighter future.

STATEMENT OF NET ASSETS AS OF JUNE 30, 2013

	Primary Institution UVU	Component Unit UVU Foundation	Total
ASSETS			
Current assets			
Cash and cash equivalents	$ 89,592,864	$ 1,185,376	$ 90,778,240
Investments	11,234,243	-	11,234,243
Accounts receivable, net	5,447,852	-	5,447,852
Notes and pledges receivable	190,065	3,288,304	3,478,369
Prepaid expenses	166,232	10,379	176,611
Inventories	3,253,381	-	3,253,381
Total current assets	109,884,637	4,484,059	114,368,696
Noncurrent assets			
Restricted cash, cash equivalents	23,426,802	31,046,889	54,473,691
Investments	7,531,987	-	7,531,987
Accounts receivable, net	3,462,991	-	3,462,991
Notes and pledges receivable	1,181,733	9,087,255	10,268,988
Other long term assets	-	3,744,419	3,744,419
Capital Assets			
Non depreciable capital assets	76,196,856	18,500	76,215,356
Depreciable capital assets, net	225,265,718	3,138,750	228,404,468
Total noncurrent assets	337,066,087	47,035,813	384,101,900
Total assets	**446,950,724**	**51,519,872**	**498,470,596**
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	532,717	-	532,717
LIABILITIES			
Current liabilities			
Accounts payable	12,540,503	-	12,540,503
Accrued liabilities	6,089,188	-	6,089,188
Other liabilities	573,661	-	573,661
Unearned revenue	7,829,002	-	7,829,002
Current portion of long-term liabilities	3,679,183	-	3,679,183
Funds held for others	557,174	-	557,174
Total current liabilities	31,268,711	-	31,268,711
Noncurrent liabilities			
Accrued liabilities	3,185,103	382,024	3,567,127
Unearned revenue	2,509,175	-	2,509,175
Bonds, notes, and capital leases payable	67,279,490	-	67,279,490
Total noncurrent liabilities	72,973,768	382,024	73,355,792
Total liabilities	**104,242,479**	**382,024**	**104,624,503**
NET POSITION			
Net investment in capital assets	254,463,421	3,157,250	257,620,671
Restricted			
Nonexpendable: Scholarships	-	16,836,214	16,836,214
Expendable:			
Grants and contracts	3,206,102	-	3,206,102
Scholarships	51,688	29,743,026	29,794,714
Loans	2,045,809	-	2,045,809
Unrestricted	83,473,942	1,401,358	84,875,300
Total net position	**$ 343,240,962**	**$ 51,137,848**	**$ 394,378,810**

The accompanying notes are an integral part of the Financial Statements

STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	Primary Institution UVU	Component Unit UVU Foundation	Total
REVENUES			
Operating revenues			
Student tuition and fees (net of scholarships and allowances of $26,802,126)	$ 109,085,350	$ -	$ 109,085,350
Private grants and contracts	16,593	-	16,593
Sales and services of education departments	5,157,253	-	5,157,253
Auxiliary enterprises (net of scholarships and allowances of $2,008,671)	13,270,402	-	13,270,402
Other operating revenues	4,577,073	-	4,577,073
Total operating revenues	**132,106,671**	**-**	**132,106,671**
EXPENSES			
Operating expenses			
Salaries	115,259,382	-	115,259,382
Fringe benefits	44,145,468	-	44,145,468
Student financial aid	41,592,881	1,689,335	43,282,216
Maintenance and utilities	11,521,273	-	11,521,273
General and administrative	32,172,658	4,530,169	36,702,827
Cost of goods sold - auxiliary enterprises	9,915,463	-	9,915,463
Depreciation	12,028,304	-	12,028,304
Total operating expenses	266,635,429	6,219,504	272,854,933
Operating loss	**(134,528,758)**	**(6,219,504)**	**(140,748,262)**
NONOPERATING REVENUES (EXPENSES)			
State appropriations	67,617,025	-	67,617,025
Federal grants and contracts	62,015,293	-	62,015,293
State grants and contracts	6,677,860	-	6,677,860
Gifts	3,085,694	4,901,274	7,986,968
Investment income (net of Foundation investment expense of $249,610)	884,958	3,819,281	4,704,239
Interest on capital asset-related debt	(678,670)	-	(678,670)
Other nonoperating revenues (expenses)	(50,388)	19,710	(30,678)
Net nonoperating revenues (expenses)	139,551,772	8,740,265	148,292,037
Income before other revenues, expenses, gains, or losses	**5,023,014**	**2,520,761**	**7,543,775**
Capital appropriations	1,724,808	-	1,724,808
Gifts to endowments	-	954,780	954,780
Capital grants and gifts	2,122,540	-	2,122,540
Total other revenues	3,847,348	954,780	4,802,128
Increase in net assets	**8,870,362**	**3,475,541**	**12,345,903**
NET POSITION			
Net position--beginning of year, as restated	334,370,600	47,662,307	382,032,907
Net position--end of year	**$ 343,240,962**	**$ 51,137,848**	**$ 394,378,810**

The accompanying notes are an integral part of the Financial Statements

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

	Primary Institution UVU
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tuition and fees	$ 107,764,579
Receipts from grants and contracts	16,593
Receipts from auxiliary and educational sales and services	18,288,779
Collection of loans to students	215,973
Payments to suppliers	(50,200,489)
Payments for employee services and benefits	(159,977,275)
Payments for student aid: scholarships and fellowships	(41,595,691)
Loans issued to students	(150,500)
Other operating payments	(51,814)
Other operating receipts	4,862,868
Net cash used by operating activities	**(120,826,977)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	66,831,084
Federal, state and private grants and contracts	67,281,492
Gifts	3,086,570
Net cash provided by noncapital financing activities	**137,199,146**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital grants and gifts received	998,058
Capital appropriations	1,980,501
Purchases of capital assets	(31,281,417)
Principal paid on capital debt and leases	(2,271,827)
Interest paid on capital related debt	(2,688,324)
Proceeds from capital debt issued	16,831
Net cash used by capital and related financing activities	**(33,246,178)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	7,514,723
Receipt of interest on investments	853,979
Purchase of investments	(26,373,700)
Net cash used by investing activities	**(18,004,998)**
Net decrease in cash	(34,879,007)
Cash and cash equivalents - beginning of year	147,898,673
Cash and cash equivalents - end of year	**$ 113,019,666**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	**$ (134,528,758)**
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation expense	12,028,304
DFCM projects not capitalized	2,391,177
Changes in assets and liabilities	
Receivables, net	(1,129,529)
Inventories	623,589
Prepaid expenses, deferred charges	1,135,769
Accounts payable	(458,953)
Accrued liabilities	(151,491)
Unearned revenue	(396,594)
Funds held for others	(110,611)
Other liabilities	(229,880)
Net Cash Used by Operating Activities	**$ (120,826,977)**
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Donated library books	$ 40,587
Donated assets	757,063
Assets contributed by DFCM	726,750
Adjustments to fair market value of investments	3,718
Total Noncash Activities	**$ 1,528,118**

The accompanying notes are an integral part of the Financial Statements


LOSEE CENTER

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Utah Valley University (the University) is a component unit of the State of Utah. It is considered a component unit because it was established under Utah statute, receives funding appropriations from the State, and is financially accountable to the State. The financial activity of the University is included in the State's Comprehensive Annual Financial Report. The accompanying financial statements include all activities that are directly controlled by the University. In addition, the financial statements include the financial position and activities of the University's discretely presented component unit, the Utah Valley University Foundation (the Foundation). A discrete component unit is an entity which is legally separate from the University, but which is financially accountable to the University or whose relationship with the University is such that excluding it would cause the University's financial statements to be misleading or incomplete.

The Foundation is a separate but affiliated non-profit corporation. The Foundation's economic resources are used for the direct benefit of the University. The accounts of the Foundation are reported under the heading "Component Unit" in the financial statements. The Foundation is administered by a Board of Directors comprised of various members of the local community. The President of the University is a permanent non-voting member of the Board.

The Foundation issues separate financial statements which are audited by independent auditors. These statements follow the Financial Accounting Standards Board (FASB) guidelines. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component unit's financial information included in the University's financial report.

The Foundation publishes audited financial statements annually. A copy of the audited financial statements can be obtained from the University's Institutional Advancement Office at 800 West University Parkway, Orem, Utah 84058.

Basis of Accounting

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

Cash Equivalents

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

Investments

The University 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 Position.

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 University'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.

Capital Assets

Capital assets are recorded at cost on the date of acquisition or in the case of gifts, fair market value at the date of donation. For equipment, the University'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 leasehold 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 the 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. Leasehold improvements are amortized over the lesser of the useful life of the improvement or the lease term.

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.

Unearned Revenues

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

Bond Discounts/Premiums/Deferred Amount on Refunding

Bond discounts, premiums, and the deferred amount on refunding, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium, discount, or deferred amount on refunding. Issuance costs are expensed in the year incurred.

Compensated Absences

Salaried, non-faculty full-time employees are entitled to accrue and carry forward at a calendar year-end maximum of 30 days of annual vacation leave. Upon termination of employment, employees are entitled to be paid for accumulated unused annual vacation leave up to 30 days, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory overtime leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is calculated at fiscal year-end current salary costs and the cost of the salary-related benefit payments. The net change in the liability is recorded in the current year in the applicable functional expenditure category.

Classification of Revenues and Expenses

The University 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) applicable Federal, state and local grants and contracts, 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 by GASB No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, such as state appropriations, investment income, and Pell Grants and like revenues.

Operating Expenses: With the exception of interest expense and losses on the disposal of capital assets, all expense transactions are classified as operating expenses.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The University only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The University does not have any items that qualify for reporting in this category.

Restricted and Unrestricted Resources

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

Net Position

The University's net position is classified as follows:

Net investment in capital assets: This amount represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of investment in capital assets, net of related debt.

Restricted net position – nonexpendable: Nonexpendable restricted net position 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 position – expendable: Restricted expendable net position include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

Implementation of New Pronouncements

Beginning in 2013, the University implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance to standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

The University also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

For the University, implementation of the new statements resulted in a prior period restatement due to expensing bond issuance costs that had previously been capitalized and amortized (see Note 20).

The GASB issued GASB Statement No. 68 *Financial Reporting for Pension Plans* – an Amendment of GASB Statement No. 27 is effective for fiscal year 2015. This new accounting and reporting standard may impact the University's recognition and timing of assets and liabilities in the financial statements. The requirements of this statement may require restating beginning net position. The University is not planning to early implement this standard and has made no estimation of the effect it will have on the financial statements.

Income Taxes

The University is a political subdivision of the State of Utah and is consequently exempt from federal and state income taxes. The University also qualifies as an organization exempt from taxation under section 501 (c)(3) of the internal revenue code.

The Utah Valley University Foundation, a discretely presented component unit of the University, qualifies as an organization exempt from taxation under section 501 (c)(3) of the internal revenue code. Consequently, it is also exempt from state income tax.

Scholarship Allowance

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance.

NOTE 2. DEPOSITS AND INVESTMENTS

The University

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 University follows the requirements of the Act (*Utah Code*, Title 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of University funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the State of Utah Money Management Council.

For endowment funds, the University follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and State Board of Regents Rule 541, Management and Reporting of Institutional Investments (Rule 541).

Deposits

At June 30, 2013, the carrying amounts of the University's deposits and bank balances were $8,763,070 and $9,244,264, respectively. $250,000 of the bank balances of the University was insured by the Federal Deposit Insurance Corporation (FDIC). All deposits were held by a qualified depository as defined by the State Money Management Act. The State of Utah does not require collateral on deposits.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the University's deposits may not be returned to the University. The University does not have a formal deposit policy for custodial credit risk.

Investments

The Act defines the types of securities authorized as appropriate investments for the University's non-endowment funds 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 investment securities.

Statutes authorize the University to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing Association (Sallie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The UPMIFA and Rule 541 allow the University to invest endowment funds (including gifts, devises, or bequests of property of any kind from any source) in any of the above investments or any of the following subject to satisfying certain criteria: mutual funds registered with the Securities and Exchange Commission; investments sponsored by the Common Fund; any investment made in accordance with the donor's directions in a written instrument; investments in corporate stock listed on a major exchange (direct ownership); and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital and private equity), natural resources, and private real estate assets or absolute return and long/short hedge funds.

The Utah State Treasurer's Office operates the 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, (Utah Code, Title 51, Chapter 7). 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 of the PTIF, net of administration fees, are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2013, the University had the following investments and maturities:

		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less than One**	**One to Five**	**Five to Ten**	**Ten to Twenty**
PTIF	$ 104,202,381	$ 104,202,381	$ -	$ -	$ -
Corporate bonds	18,766,230	11,234,243	7,531,987	-	-
Total	$ 122,968,611	$ 115,436,624	$ 7,531,987	$ -	$ -

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act or the UPMIFA and Rule 541, as applicable. For non-endowment funds, 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. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270 days - 15 months or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 3 years. For endowment funds, Rule 541 is more general, requiring only that investments be made as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowments and by exercising reasonable care, skill, and caution.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for reducing its exposure to credit risk is to comply with the Act, the UPMIFA, and Rule 541, as previously discussed.

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

		Quality Rating			
Investment Type	**Fair Value**	**AAA to A+**	**A**	**B**	**Unrated**
PTIF	$ 104,202,381	$ -	$ -	$ -	$ 104,202,381
Corporate bonds	18,766,230	-	7,731,065	11,035,164	-
Totals	$ 122,968,611	$ -	$ 7,731,065	$ 11,035,164	$ 104,202,381

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council or the UPMIFA and Rule 541, as applicable. Rule 17 of the Money Management Council limits non-endowment fund investments in a single issuer of commercial paper and corporate obligations to between 5 and 10% depending upon the total dollar amount held in the portfolio. For endowment funds, Rule 541 requires that a minimum of 25% of the overall endowment portfolio be invested in fixed income or cash equivalents. Also, the overall endowment portfolio cannot consist of more than 75% equity investments. Rule 541 also limits investments in alternative investment funds, as allowed by Rule 541, to between 0% and 30% based on the size of the University's endowment fund.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

The Foundation

Deposits – The Foundation

The Foundation maintains its cash balances in the PTIF and in several financial institutions. The amount on deposit at June 30, 2013, in the PTIF account was $1,144,867 and was combined with the University's PTIF account. Although this amount is not covered by federal depository insurance nor guaranteed by the State, PTIF balances are secured by investments purchased in compliance with the Act, are unrated, and have an average maturity of less than one year. The total amount deposited in various other financial institutions at June 30, 2013, was $40,509, all of which was insured by the FDIC.

Custodial Credit Risk – The Foundation

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Foundation's deposits may not be returned to the Foundation. The Foundation does not have a formal deposit policy for custodial credit risk.

Investments – The Foundation

As of June 30, 2013, the Foundation had the following investments and maturities:

		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less than One**	**One to Five**	**Five to Ten**	**Ten to Twenty**
Mutual funds	$ 8,463,749	$ 8,454,282	$ 9,467	$ -	$ -
US government treasuries	-	-	-	-	-
Corporate bonds	115,966	115,966	-	-	-
Money market accounts	2,566,293	2,566,293	-	-	-
Certificates of deposits	566,889	-	566,889	-	-
Total	**11,712,897**	**$ 11,136,541**	**$ 576,356**	**$ -**	**$ -**
Common and preferred stocks	19,333,992				
Total	**$ 31,046,889**				

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 investment policy limits investing in any issuance with a maturity over 30 years and requires the overall portfolio average life to be less than 15 years as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – 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 & Poor's 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, 2013, the Foundation's credit quality ratings for investments in debt securities were as follows:

		Quality Rating			
Investment Type	**Fair Value**	**AAA to A+**	**A**	**B**	**Unrated**
Mutual funds	$ 8,463,749	$ -	$ -	$ -	$ 8,463,749
Corporate bonds	115,966	-	-	18,971	96,995
Money market accounts	2,566,293	-	-	-	2,566,293
Certificates of deposit	566,889	-	-	-	566,889
Totals	**$ 11,712,897**	**$ -**	**$ -**	**$ 18,971**	**$ 11,693,926**

Custodial Credit Risk - Foundation

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 - Foundation

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

NOTE 3. ACCOUNTS, NOTES, AND PLEDGES RECEIVABLE

University accounts receivable consisted of the following at June 30, 2013:

Current accounts receivable, net	
Student tuition and fees	$ 3,530,628
Accrued interest	92,470
Investment interest	52,563
Operating activities	216,837
Auxiliary enterprises	1,163,869
Federal grants and contracts	872,647
Total	5,929,014
Less allowance for doubtful accounts	(1,549,855)
Total	4,379,159
Current accounts receivable-state agency	
Operating activities	41,069
Utah Department of Facilities Construction and Management	61,936
State grants and contracts	965,688
Total	1,068,693
Noncurrent accounts receivable, net	
Student tuition and fees	4,951,603
Accrued interest	1,100,149
Less allowance for doubtful accounts	(2,588,761)
Total	3,462,991
Total	**$ 8,910,843**

University notes and pledges receivable consisted of the following at June 30, 2013:

Current notes and pledges receivable, net	
Loans to students	$ 261,834
Less allowance for doubtful accounts	(71,769)
Total	190,065
Noncurrent notes and pledges receivable, net	
Loans to students	1,499,929
Less allowance for doubtful accounts	(318,196)
Total	1,181,733
Total	**$ 1,371,798**

Student loans made through the Federal Perkins Loan Program comprise substantially all of the notes receivable at June 30, 2013. Under this perpetual loan program, the Federal Government provided approximately 75% of the initial funds contributed to the program which in turn are issued as loans to students. The University provided 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 balance of the loan. The Federal Government reimburses the University a portion of amounts canceled under these provisions.

As the University determines that loans are uncollectible and not eligible to be forgiven by the Federal Government, the loans are written off and assigned to the U.S. Department of Education. The University 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, 2013, the allowance for uncollectible loans was $389,965.

NOTE 4. PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and deferred charges consisted of the following at June 30, 2013:

Prepaid expenses		
Utah Department of Facilities Construction and Management	$	6,988
Prepaid equipment		163,227
Deferred charges		
Franchise start-up costs		40,017
Credits due the Bookstore		(44,000)
Total		(3,983)
Total	**$**	**166,232**

NOTE 5. INVENTORIES

Inventories at June 30, 2013 were as follows:

Auxiliary enterprises	$	2,676,952
Supplies and other inventory		576,429
Total	**$**	**3,253,381**

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

University accounts payable consisted of the following at June 30, 2013:

Current accounts payable	
Interest payable	$ 437,474
Vendors payable	1,660,994
Federal grants	163,681
Employee deposits payable	228,011
Total	2,490,160
Current accounts payable-related party	
Interest payable	99,487
Current accounts payable-state agency	
State taxes payable	46,827
Other payable	36,025
State grants and contracts	268,859
Utah Division of Facilities Construction and Management payable	9,599,145
Total accounts payable - state agency	9,950,856
Total	**$ 12,540,503**

University accrued liabilities consisted of the following at June 30, 2013:

Current accrued liabilities	
Federal taxes payable	$ 99,857
Wages payable	480,372
Early retirement payable	282,797
Accrued leave payable	1,684,553
Medical and dental claims payable	2,135,136
Student reimbursements	26,607
Payroll liabilities	741,863
Total	5,451,185
Current accrued liabilities-state agency	
State taxes payable	398,995
Payroll liabilities	239,008
Total	638,003
Noncurrent accrued liabilities	
Early retirement payable	263,119
Accrued leave payable	2,921,984
Total	3,185,103
Total	**$ 9,274,291**

NOTE 7. UNEARNED REVENUE

Unearned revenue of the University consisted of the following at June 30, 2013:

Current unearned revenue	
Prepaid tuition and fees	$ 6,290,304
Grants and contracts	1,361,037
Total	7,651,341
Current unearned revenue-state agency	
Project repairs	177,661
Total current unearned revenue	7,829,002
Noncurrent unearned revenue	
Grants and contracts	2,509,175
Total unearned revenue	**$ 10,338,177**

NOTE 8. CAPITAL ASSETS

The following are the changes in capital assets of the University for the year ended June 30, 2013:

	Beginning Book Value	Increases	Decreases	Ending Book Value
Capital assets not being depreciated				
Land	$ 34,290,406	$ -	$ (3,782)	$ 34,286,624
Land improvements- non depreciable	4,014,144	-	-	4,014,144
Works of art and historical treasures	1,351,723	41,130	-	1,392,853
Construction in process	4,238,215	35,893,351	(3,628,331)	36,503,235
Total not being depreciated	43,894,488	35,934,481	(3,632,113)	76,196,856
Capital assets being depreciated				
Land improvements – depreciable	7,484,008	-	-	7,484,008
Infrastructure	18,620,976	2,580,386	-	21,201,362
Buildings	259,475,531	1,975,824	-	261,451,355
Leasehold Improvements	1,632,882	910,323	-	2,543,205
Equipment	39,021,427	4,250,207	(1,880,919)	41,390,715
Library books	6,202,912	371,519	(55,783)	6,518,648
Total being depreciated	332,437,736	10,088,259	(1,936,702)	340,589,293
Less accumulated depreciation				
Land improvements – depreciable	(3,871,914)	(486,792)	-	(4,358,706)
Infrastructure	(5,023,492)	(658,343)	-	(5,681,835)
Buildings	(66,149,222)	(6,516,595)	-	(72,665,817)
Leasehold Improvements	(310,083)	(68,290)	-	(378,373)
Equipment	(26,947,680)	(3,992,921)	1,715,954	(29,224,647)
Library Books	(2,764,618)	(305,363)	55,784	(3,014,197)
Total accumulated depreciation	(105,067,009)	(12,028,304)	1,771,738	(115,323,575)
Total depreciable capital assets, net	227,370,727	(1,940,045)	(164,964)	225,265,718
Total capital assets, net	**$ 271,265,215**	**$ 33,994,436**	**$ (3,797,077)**	**$ 301,462,574**

Interest capitalized as part of building construction was $1,763,803 and is included as part of construction in progress.

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

	2013	2012
Capital assets not being depreciated		
Land	$ 18,500	$ -
Capital assets being depreciated		
Rental income property	3,138,750	3,953,764
Total	**$3,157,250**	**$3,953,764**

NOTE 9. BONDS PAYABLE

Bonds payable consist of the Municipal Building Authority of Utah County, Utah, Lease Revenue Bonds, (Federally Taxable) Series 2004A and Lease Revenue Refunding Bonds, Series 2004B (Utah Valley State College Project) {MBA 2004A&B}, the State Board of Regents of the State of Utah, Student Center Building Fee and Unified System Revenue Refunding Bonds, Series 2004A {SBR 2004A} and the State Board of Regents of the State of Utah, Utah Valley University, Student Center Building Fee and Unified System Revenue Bonds, Series 2012 A {SBR 2012A}.

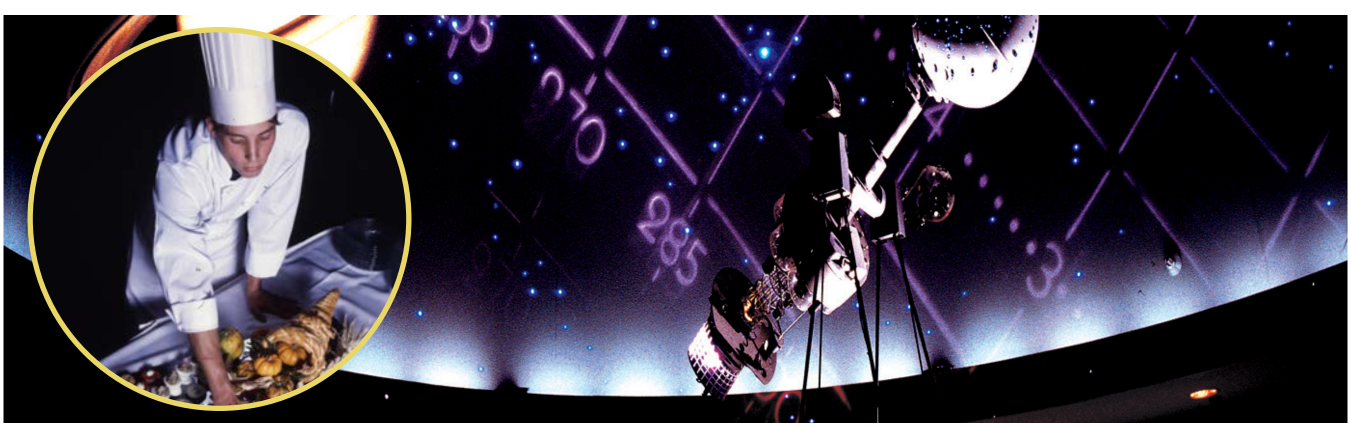
The Municipal Building Authority of Utah County, Utah, issued Lease Revenue Bonds, (Federally Taxable) Series 2004A (Utah Valley State College Project), in the amount of $3,900,000 and Lease Revenue Refunding Bonds, Series 2004B (Utah Valley State College Project), in the amount of $2,600,000, on August 3, 2004. The Authority leased the 2004 Projects to Utah County, Utah pursuant to a Master Lease Agreement dated August 1, 2004. The County, in turn, subleased the Series 2004 Projects to the State Board of Regents of the State of Utah on behalf of the University, pursuant to a Sublease Agreement dated as of August 1, 2004. The MBA 2004A&B Bonds were issued for the purpose of (i) refunding all of the Authority's outstanding 1999 Bonds; (ii) financing the acquisition and construction of a baseball stadium and related improvements; (iii) satisfying a reserve fund requirement; and (iv) paying 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 Refunding Bonds, Series 2004A, in the amount of $11,020,000, and Student Center Building Fee and Unified System Revenue Refunding Bonds, (Federally Taxable) Series 2004B, in the amount of $4,035,000 for and on behalf of the University on August 3, 2004. The SBR 2004 A&B Bonds were issued for the purpose of (i) refunding all of the State Regent's outstanding 2000 Bonds and the 1995A Bonds; (ii) satisfying a reserve fund requirements; and (iii) paying the costs associated with the issuance of the 2004 Bonds. The SBR 2004B Bonds were paid off in November of 2011.

The State Board of Regents of the State of Utah issued Student Center Building Fee and Unified System Revenue Bonds, Series 2012A, in the amount of $49,250,000. The SBR 2012A Bonds were issued for the purpose of (i) financing the acquisition and construction of a Student Life and Wellness building and a parking structure; (ii) satisfying a reserve fund requirement; (iii) paying capitalized interest; and (iv) paying the costs associated with the issuance of the 2012A Bonds.

Bonds payable at June 30, 2013 consisted of the following:

Description	Original Issue	Balance June 30, 2013	Due Within One Year
MBA 2004A Lease Revenue Bonds (federally taxable), due in annual installments through 2019, interest rates 5.5% to 6.0%	$ 3,900,000	$ 2,220,000	$ 265,000
Less discount	(16,666)	(7,291)	(1,042)
Total net MBA 2004A	3,883,334	2,212,709	263,958
MBA 2004B Lease Revenue Refunding Bonds, due in annual installments through 2014, interest rates 4.1% to 4.2%	2,600,000	550,000	270,000
Plus premium	37,378	6,796	3,398
Total net MBA 2004B	2,637,378	556,796	273,398
SBR 2004A Student Center Building Fee and Unified System Revenue Refunding Bonds, due in annual installments through 2020, interest rates 4.0% to 4.5%	11,020,000	2,795,000	300,000
Plus premium	105,719	49,750	6,219
Total net SBR 2004A	11,125,719	2,844,750	306,219
SBR 2012A Student Center Building Fee and Unified System Revenue Bonds, due in annual installments through 2033, interest rates 3% to 5%	49,250,000	48,660,000	1,635,000
Plus premium	6,075,767	5,786,445	289,322
Total net SBR 2012A	55,325,767	54,446,445	1,924,322
Total net bonds	**$ 72,972,198**	**$ 60,060,700**	**$ 2,767,897**



Principal and interest on the SBR 2004A Bonds, the MBA 2004A&B Bonds, and the SBR 2012A Bonds are secured by pledged revenues which consist of all (i) net operating revenues of the Bookstore, the Student Center, and all University Food Services; (ii) Student Center building fees; (iii) investment income; and (iv) HUD subsidy grant. A portion of the bond proceeds were set aside to make debt service payments until the buildings are operational and generating fees. The Capitalized interest reserves in the table below represent these funds.

The following is a summary of the pledged revenues for fiscal year 2013 and the bond payments due in fiscal year 2014:

Pledged revenues	
Building fee – Spring	$ 2,011,433
Building fee – Summer	601,798
Building fee – Fall	2,192,789
Total building fees	4,806,020
Interest income	332,690
Net auxiliary profits	476,249
Total pledged revenues	5,614,959
Principal and interest payments for fiscal year 2014	
SBR 2004A Bonds	412,552
MBA 2004A&B Bonds	675,483
SBR 2012A Bonds	3,693,925
Total principal and interest payments	4,781,960
Capitalized interest reserves	(1,837,348)
Net principal and interest to be covered by pledged revenues	$ 2,944,612

In addition, the SBR 2004A Bonds and the MBA 2004A&B Bonds are insured by a financial guaranty insurance policy issued by XL Capital Assurance Inc. The SBR 2004A Bonds and the MBA 2004A&B Bonds Debt Service Reserve Requirements have been met by the purchase of a Reserve Instrument from XL Capital Assurance Inc. As required by the SBR 2012A Bond, a reserve fund has been established of $3,722,024.

The scheduled maturities of bonds payable at June 30, 2013, are as follows:

Year	Principal	Interest	Total
2014	$ 2,470,000	$ 2,311,960	$ 4,781,960
2015	2,555,000	2,223,532	4,778,532
2016	2,350,000	2,136,990	4,486,990
2017	2,440,000	2,052,162	4,492,162
2018	2,530,000	1,954,404	4,484,404
2019-2023	12,265,000	8,101,520	20,366,520
2024-2028	13,100,000	5,155,500	18,255,500
2029-2033	16,515,000	1,721,025	18,236,025
Total	**$ 54,225,000**	**$ 25,657,093**	**$ 79,882,093**

NOTE 10. OPERATING LEASES

The University leases airport facilities and land under non-cancelable operating leases. Total costs for such leases were $42,445 for the year ended June 30, 2013.

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
2014	$ 38,715
2015	38,894
2016	40,864
2017	40,864
2018	40,864
2019-2023	210,497
2024-2028	133,546
2029-2033	27,649
Total future minimum lease payments	**$ 571,893**

NOTE 11. CAPITAL LEASE OBLIGATIONS

The University has acquired certain equipment under various lease-purchase contracts or other capital lease agreements. The cost of University assets held under capital leases totaled $12,869,586 as of June 30, 2013. Accumulated depreciation of leased assets totaled $3,558,579 at June 30, 2013.

The assets acquired through capital leases are as follows:

Aircraft	$	2,129,020
Less: accumulated depreciation		(877,701)
Student Services equipment		16,831
Less: accumulated depreciation		(433)
ESCO Energy Savings Projects		10,723,735
Less: accumulated depreciation		(2,680,444)
Total net capital lease assets	**$**	**9,311,008**

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, 2013:

Fiscal Year Ending June 30		**Capital Leases**
2014	$	949,321
2015		857,827
2016		858,745
2017		811,824
2018		838,439
2019-2022		3,431,682
Total future minimum lease payments		7,747,838
Amounts representing interest		(1,462,312)
Present value of net minimum lease payments	**$**	**6,285,526**

NOTE 12. EARLY RETIREMENT LIABILITY

The University provides an early retirement option to qualified employees who are approved by the administration in accordance with University policy as approved by the State Board of Regents. Employees who retire from the University on or after age 57 and whose combined total of age and years of service is 75 or greater may be qualified to receive benefits.

Benefits are payable for five years or until the retiree reaches age 65, whichever occurs first. The benefits include a stipend equal to 20 percent of the retiree's salary at the time of active employment along with medical and dental insurance. The stipend is paid semi-monthly. During the fiscal year ended June 30, 2013, 26 employees participated in the early retirement plan, of which 22 retirees received medical and dental insurance benefits and 23 received stipends.

The projected future cost of these stipends, and medical and dental insurance benefits have been calculated based on current payments plus projected increases expected of 0.94% and 7.46% respectively, based on historical data. The amount recognized on the financial statements was calculated at the discounted present value of the projected future costs.

The discount rate used of 0.6% was based on the estimated yield expected to be earned on the investments of the University. These benefits are funded on a pay-as-you-go basis from current funds each year. For the year ended June 30, 2013, the expenses for the 20 percent incentive stipend were $238,111 and the expenses for medical and dental insurance were $150,187.

NOTE 13. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of the changes to the University's long-term liabilities during the fiscal year ended June 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	$ 55,610,000	$ -	$ (1,385,000)	$ 54,225,000	$ 2,470,000
Premium	6,141,919	-	(298,928)	5,842,991	298,939
Discount	(8,333)	-	1,042	(7,291)	(1,042)
Total bonds payable	61,743,586	-	(1,682,886)	60,060,700	2,767,897
Capital leases	6,917,375	16,831	(648,680)	6,285,526	661,681
Total bonds and capital leases	68,660,961	16,831	(2,331,566)	66,346,226	3,429,578
Notes payable	4,850,595	-	(238,148)	4,612,447	249,605
Early retirement	644,070	290,144	(388,298)	545,916	282,797
Accrued leave	4,450,682	2,630,014	(2,474,159)	4,606,537	1,684,553
Total	**$ 78,606,308**	**$ 2,936,989**	**$ (5,432,171)**	**$ 76,111,126**	**$ 5,646,533**

Due to the implementation of GASB Statement 63 (see Note 1), the beginning balance of this schedule does not tie to the ending balance in the prior year financial statements by $628,211. The difference is the deferred amounts on refunding which were included with the bonds in the prior year, but are now reported separately as a deferred outflow of resources.

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

	2013	2012
Notes payable	$ -	$ 20,721
Deferred annuity payments	382,024	418,653
Total	**$ 382,024**	**$ 439,374**

NOTE 14. PENSION PLANS AND RETIREMENT BENEFITS

Plan Description

The University 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 (the Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective chapters of Title 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement and Insurance Benefit Act in Title 49 provides for the administration of the Systems and Plans under the direction of the Utah State Retirement Board (the Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Contributory Retirement System 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 6.00% of their annual covered salary (all or part may be paid by the employer for the employee) and the University is required to contribute 14.27% of their annual covered salary. In the State and School Noncontributory Retirement System, the University is required to contribute 18.76% (with an additional 1.5% to a 401(k)) of their annual covered salary. The contribution rates are actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The University contributions to the State and School Contributory Retirement System for the years ending June 30, 2013, 2012, and 2011 were $399,557, $228,879, and $199,029, respectively, and for the Noncontributory Retirement System the contributions for June 30, 2013, 2012, and 2011 were $3,888,859, $3,474,679, and $3,268,418, respectively. Employer contributions to the 401(k) plan for the same years were $348,014, $329,008, and $300,409, respectively. The contributions were equal to the required contributions for each year.

Employee contributions to the 401(k) plan for the years ended June 30, 2013, 2012, and 2011 were $575,539, $599,862, $621,798, respectively.

Teacher's Insurance and Annuity Association as well as Fidelity Investments provide individual retirement fund contracts with participating employees. 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, 2013, the University's contribution to this defined contribution plan was 14.2% of the employee's eligible annual salary. The payments for this plan totaled $10,801,476. The University has no further liability once annual contributions are made.

NOTE 15. RISK MANAGEMENT

Due to the diverse risk exposure of the University, the insurance portfolio contains a full variety of coverage. The University 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 University's liabilities for this policy are limited to the cost of premiums. In addition to these basic policies, the University's Department of Risk, Plant, and Property Management establishes guidelines in risk assessment, risk avoidance, risk transfer, and risk acceptance. The University's buildings and contents are insured for replacement value. Each loss incident is subject to a $1,000 deductible.

NOTE 16. SELF-INSURANCE FOR EMPLOYEE HEALTH AND DENTAL CARE

As of July 1, 2006 the University established a self-funded insurance plan for employee health and dental care costs. As part of the plan, the University has established a reserve fund. Also, the University has purchased excess insurance coverage (stop-loss coverage) to pay specific claims exceeding $250,000 and aggregate claims exceeding 125% of expected claims. The University has a contract with EMI Health of Utah to provide excess insurance and certain administrative and management services such as the evaluation and payment of claims. Amounts of settlements have not exceeded insurance coverage in the past three years. In addition a consulting firm has been hired by the University to advise the University with regards to the plan. The estimated claims liability was based upon past experience adjusted for current trends. The estimate reflects the ultimate cost of settling the claims.

Changes in the University's estimated self-insurance claims as of June 30, are as follows:

	2013	2012
Estimated claims liability - beginning of year	$ 2,479,222	$ 2,502,722
Current year claims and changes in estimates	21,273,160	21,161,494
Claim payments and administrative expenses	(21,616,802)	(21,184,994)
Estimated claims liability - end of year	**$ 2,135,580**	**$ 2,479,222**

NOTE 17. COMMITMENTS AND CONTINGENT LIABILITIES

The University, through an Inter-local Cooperation Agreement (the Agreement), is a participant with Utah County (the County) in a joint venture to operate the UCCU Center (the Center) located on the University's campus. The Agreement provides that the title to the Center be held by the University 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 University's financial statements. There are no separately issued financial statements for this joint venture.

The University 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.

The Division of Facilities Construction and Management (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 University. Construction projects are recorded on the books of the University as funds are expensed, or when projects are substantially completed if funded through State Appropriations administered through DFCM.

As of June 30, 2013, the University had the following outstanding commitments to DFCM for various projects:

New classroom building	$ 1,000,000
Student wellness center and parking structure	17,466,000
Environmental building remodel	1,626
Wee care child care center	1,178,232
Soccer field bleacher improvements	317,458
UCCU Center roof replacement	252,282
Provo airport hanger exterior siding replacement	5,632
Culinary Arts renovation	6,648
Geneva property lot 1 improvements	3,329,287
Total	**$ 23,557,165**

These commitments represent funds needed in the future and are not recorded on the books.

NOTE 18. RELATED PARTY TRANSACTIONS

The University entered into various agreements involving the Foundation:

A. The University leased two buildings from the Foundation. One of the building leases expired September 2012 and the second building lease expires June 2027. The lease agreements call for fixed 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 payments to be paid under the lease agreements are as follows for the years ending June 30:

2014	$ 186,761
2015	186,761
2016	186,761
2017	186,761
2018	186,761
2019-2023	933,805
2024-2027	747,044
Total	**$ 2,614,654**

B. During the year ended June 30, 2013, the Foundation transferred ownership of a building to the University. This building was originally purchased in 1998 for $887,640. The building’s net book value when transferred was $560,323.

The Foundations activity has been reported under “General and Administrative” in the University’s Statement of Revenues, Expenses, and Changes in Net Position. The donation to the University is reported as part of “Gifts” in the same statement.

C. During the year ended June 30, 2012, the University borrowed $3 million to acquire land. The note carries a term of 20 years and bears a 6 percent interest rate with semi-annual payments of $127,787, and matures September 2031. The amount due was $2,934,562 (including accrued interest of $57,540).

During the year ended June 30, 2009 the University borrowed $2,000,000 from the Foundation to acquire a number of buildings adjacent to campus. The note carries a term of 15 years and bears a 6 percent interest rate with semi-annual payments of $102,039 and matures August 2023. The amount due as of June 30, 2013, was $1,612,249 including accrued interest of $39,323.

The principal maturities on these notes as of June 30, is as follows:

2014	$ 199,604
2015	211,760
2016	224,656
2017	238,338
2018	252,853
2019-2023	1,514,878
2024-2028	999,249
2029-2032	808,611
Total	**$ 4,449,949**

D. During the year ended June 30, 2013, the Foundation had certain additional transactions with the University in its capacity to support the University. The Foundation forwarded funds and donated in-kind materials and equipment to the University for scholarships, awards, departments, and general use. Funds forwarded to departments during the year ended June 30, 2013 were used towards wages and purchases of items to enhance University programs. The University provides facilities and services to the Foundation, the value of which is undetermined and is not recorded on the financial statements.

NOTE 19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University’s operating expenses by functional classification were as follows:

Year Ended June 30, 2013
Natural Classification

	Compensation	Benefits	Financial Aid	Maintenance	General and Administrative	Auxiliary	Depreciation	Total
Functional Classification								
Instruction	$ 61,412,540	$ 22,254,854	$ -	$ 457,481	$ 7,473,302			$ 91,598,177
Academic Support	12,173,433	4,836,256	-	143,591	4,427,105			21,580,385
Student Services	13,539,517	5,565,565	-	125,753	6,387,511			25,618,346
Institutional Support	15,501,521	6,175,512	-	1,345,098	8,216,407			31,238,538
Operation and Maintenance of Plant	5,374,588	2,936,141	-	8,815,244	1,279,010			18,404,983
Student Financial Aid	712,765	20,968	41,568,532	-	-			42,302,265
Public Service	952,238	377,223	-	13,793	511,509			1,854,763
Research	53,881	11,143	-	-	57,087			122,111
Remedial Education	1,682,213	609,094	-	224	26,420			2,317,951
Auxiliaries	3,856,686	1,358,712	24,349	620,089	3,794,307	9,915,463	-	19,569,606
Depreciation							12,028,304	12,028,304
Total Expenses	**$ 115,259,382**	**$ 44,145,468**	**$ 41,592,881**	**$ 11,521,273**	**$ 32,172,658**	**$ 9,915,463**	**$ 12,028,304**	**$ 266,635,429**

NOTE 20. RESTATEMENT

The University implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which required the restatement of the financial statements for all periods presented.

For the University, implementation of this statement resulted in restating beginning net position due to expensing bond issuance costs that had previously been capitalized and amortized (see Note 1).

The effect of the restatement was $868,144 to beginning net position. The 2012 Financial statements were restated as follows:

	As Previously Reported	As Restated	Change
Statement of net position:			
Prepaid expenses, deferred charges	$ 1,302,001	$ 433,857	$ (868,144)
Statement of Revenue, Expenses, and changes in net position:			
Interest expense	(1,097,361)	(1,832,608)	(735,247)
Change in net position	55,049,219	54,313,972	(735,247)
Net position - beginning	280,189,525	280,056,628	(132,897)
Net position - ending	335,238,744	334,370,600	(868,144)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