2017 ANNUAL FINANCIAL REPORT

UTAH VALLEY UNIVERSITY

A COMPONENT UNIT OF THE STATE OF UTAH


1941

2017 ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS

UTAH VALLEY UNIVERSITY

President's Message

President’s Letter Annual Report

Utah Valley University has a story to tell. It is the story of how a small, local vocational school transformed itself into an outstanding teaching university but retained its commitment to being a comprehensive community college. Over the last year, UVU has had new-found opportunities to speak about our dual mission model - and the world has taken notice. From national publications such as the *Wall Street Journal* and *Inside Higher Education* to international entities like Red Deer College in Alberta, Canada, and the United Kingdom’s All Party Parliamentary Group on Foreign Affairs, UVU is being recognized for its dedication to achieving student success at every level of higher education through engaged, serious, inclusive instruction. It has been a year filled with pride for every one of the women and men here at UVU who work so hard day in and day out on behalf of our students.

The national and international attention UVU has received has come at a period of great growth and excitement on our campus. For the second consecutive year, UVU stands as the largest institution of higher education in the state of Utah with more than 37,000 students enrolled. In May at our 76th Commencement, we graduated more than 5,000 students, among them nearly 100 masters degree recipients. This fall, we welcomed a record number of first year students alongside the first cohorts of our five new masters programs. And, over the course of the last twelve months, our Board of Trustees has overseen the addition of several new academic programs to our degree offerings, among them a BS in Respiratory Therapy, an AAS in Automotive Power Sports, and, perhaps most prominently, BS degrees in mechanical, electrical, and civil engineering.

The continued strengthening of our academic programs has been intertwined with the physical transformation of our campus. Over the last year, we have opened the doors of two truly remarkable privately-funded buildings, the Cole Nellesen Building, which houses the Melisa Nellesen Autism Center, and the NUVI Basketball Center. We broke ground on the Noorda Center for the Performing Arts, a building for which UVU received $32 million in support from the Utah legislature. Further, we cut the ribbon on our newly renovated Rebecca D. Lockhart Arena and our satellite campus at Thanksgiving Point. These buildings have not only dramatically transformed the scope of our campus footprint but have and will continue to expand exponentially our ability to address the needs of our student population and serve as a resource for our community.

Continues on next page>>

The most breathtaking addition to our campus has been the addition of the Roots of Knowledge stained glass windows in the Marc and Deborah Bingham Gallery in the Ira A. Fulton Library. This installation tells the story of humanity's pursuit of knowledge in more than 60,000 pieces of colored glass spanning over 200 ft. It is a testament to the developments in art, literature, religion, philosophy, political thought, science, technology, trade, industry, and business that have transformed the course of human history. These windows have become a hallmark of our institution and we have been delighted to welcome dignitaries and thousands of community members alike to stand in thoughtful wonder before their beauty. Indeed, the Roots of Knowledge are so captivating that they were honored with the 2017 CODAworx People's Choice Award.

For the 2017 fiscal year, UVU received a 4.7% increase in appropriated base tax funds as well as an additional 8.1% in tuition revenue from a combination of enrollment increases and tuition rate change. These new revenues supported the addition of 27 full-time faculty and 36 full-time staff to improve quality and respond to demands of a growing student body. We are pleased that because of our commitment to providing a high quality, serious education, we have maintained our goal of 55 percent of instruction delivered by full-time faculty. Reflecting UVU's commitment to student access and affordability, general student fees were reduced for the second straight year. We are positioned better now, more than ever, to provide our students the affordable access and resources they need to achieve their academic goals.

As always, the work that we do at Utah Valley University is built on a foundation of ethical operation and accountability. Faculty, staff, and administration are held to the highest standards of integrity and honesty. The resources with which we have been entrusted are allocated and managed within an environment that supports our mission of serving students, strengthens our professional reputation for excellence, and maintains the public's trust.

The success of UVU's dual mission model is rooted in our commitment to providing a serious, engaged, inclusive education oriented toward student success. The growth and development of our institution, the resonance of our story with the national and international communities, and the academic and professional achievements of our students have led us to believe that UVU is the nation's very best open admissions platform for student success. I have tremendous confidence in the ability of our university to continue to be a leader in higher education in the years to come. I look forward to seeing the success of our students as this narrative unfolds.

Matthew S. Holland, President

Independent State Auditor's Report

Office of the
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, 2017, 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 opinions 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 opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit foundation as of June 30, 2017, and the respective changes in financial position and, where applicable, the 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 Management's Discussion and Analysis and the University's Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of the Contributions to the Utah Retirement Systems, as listed in the table of contents, 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 opinions 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 21, 2017 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 State Auditor

Office of the State Auditor
December 21, 2017

Management's Discussion and 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, 2017, with comparative information for the year ended June 30, 2016. 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 $11.8 million during the fiscal year.
- Enrollment increased 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 GASB 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.

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 available 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

	2017	2016	Change	% Change
ASSETS				
Current assets	$ 91,223,844	$ 108,760,079	$ (17,536,235)	(16.1%)
Noncurrent assets	63,174,223	46,418,844	16,755,379	36.1%
Capital assets, net	386,905,224	368,699,727	18,205,497	4.9%
Total assets	**541,303,291**	**523,878,650**	**17,424,641**	**3.3%**
Deferred Outflows of Resources	11,921,630	11,957,861	(36,231)	(0.3%)
LIABILITIES				
Current liabilities	37,365,391	30,744,678	6,620,713	21.5%
Noncurrent liabilities	88,512,559	91,152,289	(2,639,730)	(2.9%)
Total liabilities	**125,877,950**	**121,896,967**	**3,980,983**	**3.3%**
Deferred Inflows of Resources	4,207,930	2,564,408	1,643,522	64.1%
NET POSITION				
Net invested in capital assets	329,467,067	309,148,787	20,318,280	6.6%
Restricted expendable	5,986,672	4,779,883	1,206,789	25.2%
Unrestricted	87,685,302	97,446,466	(9,761,164)	(10.0%)
Total net assets	**$ 423,139,041**	**$ 411,375,136**	**$ 11,763,905**	**2.9%**

The decrease in current assets held by the University of $17.5 million is mainly due to an increase in short-term investments of $9.5 million and an decrease of cash of $28.4 million. The decrease in current assets is directly related to an increase in noncurrent assets of $16.8 million due to the University increasing noncurrent investments by $16.5 million. Cash and cash equivalents make up 67.4% of the current assets balance with $61.5 million. A portion of cash, $4.9 million, is considered restricted due to restrictions placed on how the cash can be spent. In this case, the restrictions come from granting agencies, such as the federal government and donors.

Capital assets increased by $18.2 million. The University made various capital asset additions during fiscal year 2017. The most significant additions were the completion of the Autism Building and Basketball Practice Facility at a cost of $5.7 and $4.2 million, respectively. There were other building purchases and remodels totaling $10.5 million. A total of $20.4 million was added to buildings during the fiscal year. The University also purchased various pieces of equipment at a cost of $4.7 million.

The net change in capital asset increases and decreases totaled $33.4 million (excluding depreciation). This net increase in capital assets was offset by a net change in depreciation of $15.2 million, which nets to a increase in capital assets of $18.2 million.

Current liabilities increased by 21.5% or $6.6 million. The increase is due mostly to changes in the timing of payments to vendors which impacts accounts payable and other accrued liabilities. Accounts payable increased by $3.3 million and accrued liabilities for payroll related expenses increased by $3.7 million. Accounts payable mostly increased due to payables to the State of Utah Department of Facilities Management for construction projects. Most of the accrued liabilities increase is due to the change in medical claims payable. This year there were more claims payable at the end of the year than in the prior year.

Noncurrent liabilities decreased by $2.6 million during the year. These changes resulted from paying principle payments on debt.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

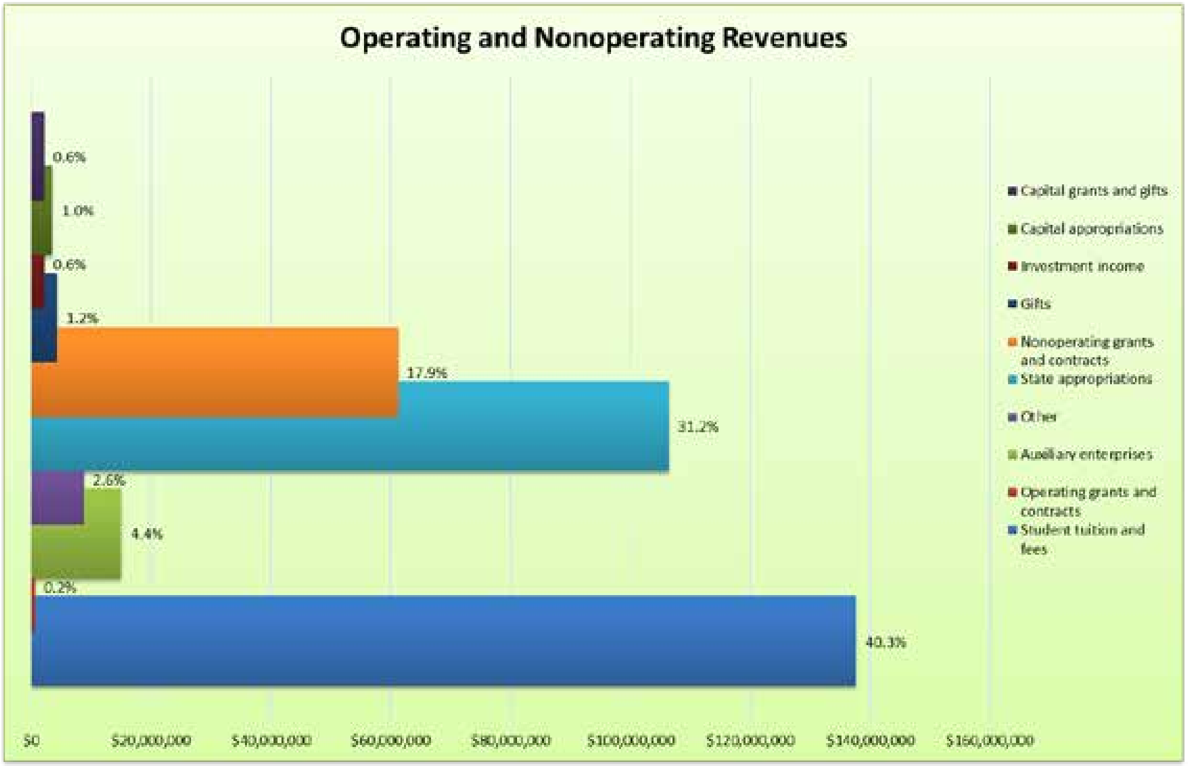
Changes in total net position, as presented on the Statement of Net Position, are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the operating and nonoperating revenues received by the University, the operating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

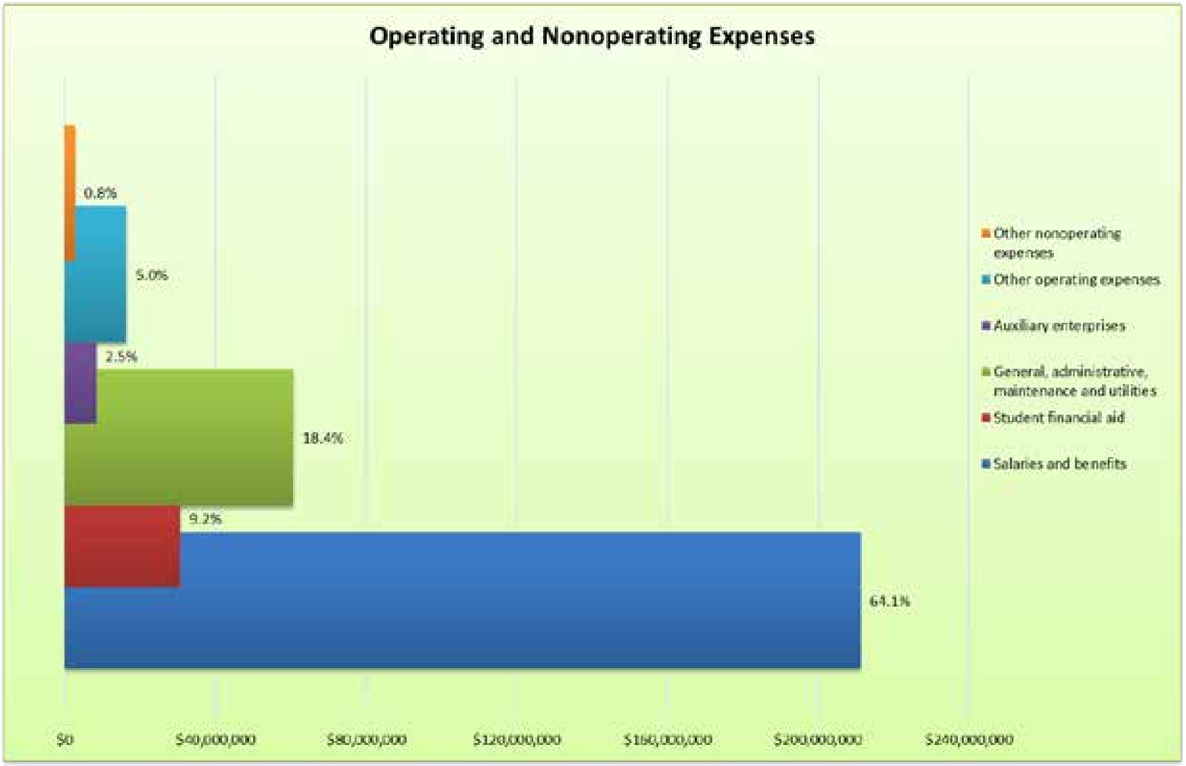
Generally speaking, operating revenues are revenues received for providing goods and services to the various customers and constituencies of the University. Operating expenses are expenses paid to acquire or produce the goods and services provided in return for operating revenues and to carry out the 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 State 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

	2017	2016	Change	% Change
REVENUES				
Operating revenues				
Student tuition and fees	$ 137,605,375	$ 126,084,478	$ 11,520,897	9.1%
Grants and contracts	525,629	733,323	(207,694)	(28.3%)
Auxiliary enterprises	15,023,914	13,281,019	1,742,895	13.1%
Other	8,792,504	8,593,495	199,009	2.3%
Total operating revenues	**161,947,422**	**148,692,315**	**13,255,107**	**8.9%**
EXPENSES				
Operating expenses				
Salaries and benefits	211,303,897	191,928,317	19,375,580	10.1%
Student financial aid	30,463,806	30,781,007	(317,201)	(1.0%)
General and administrative, maintenance and utilities	60,627,814	54,296,966	6,330,848	11.7%
Auxiliary enterprises	8,235,722	8,821,647	(585,925)	(6.6%)
Depreciation	16,383,638	15,602,305	781,333	5.0%
Total operating expenses	327,014,877	301,430,242	25,584,635	8.5%
Operating loss	**(165,067,455)**	**(152,737,927)**	**(12,329,528)**	**8.1%**
NONOPERATING REVENUES (EXPENSES)				
State appropriations	106,398,062	102,595,797	3,802,265	3.7%
Grants and contracts	61,130,771	62,287,512	(1,156,741)	(1.9%)
Gifts	4,239,863	3,674,456	565,407	15.4%
Investment income	2,145,270	1,279,928	865,342	67.6%
Other nonoperating revenues (expenses)	(2,690,261)	(3,065,702)	375,441	(12.2%)
Net nonoperating revenues	171,223,705	166,771,991	4,451,714	**2.7%**
Income before other revenues	**6,156,250**	**14,034,064**	**(7,877,814)**	**(56.1%)**
Capital appropriations	3,483,392	1,061,742	2,421,650	228.1%
Capital grants and gifts	2,124,263	227,739	1,896,524	832.8%
Other revenues	5,607,655	1,289,481	4,318,174	334.9%
Change in net assets	**11,763,905**	**15,323,545**	**(3,559,640)**	**(23.2%)**
Net position – beginning	411,375,136	396,051,591	15,323,545	3.9%
Net position – ending	**$ 423,139,041**	**$ 411,375,136**	**$ 11,763,905**	**2.9%**

The following graphs illustrate operating and nonoperating revenues and expenses as a percentage of the total for the year ended June 30, 2017.





The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in net position of $11.8 million. Operating revenues increased by 8.9% from the prior year. Tuition and fees increased by $11.5 million or 9.1% compared to the prior reporting period due to an increase in tuition rates of 2.7% and to an increase in the number of students of 6.6%. Auxiliary enterprises increased by 13.1% or $1.7 million due to additional sales in the bookstore and food services related to an increase in student enrollment.

Operating expenses increased from the prior year by 8.5% or $25.6 million. Salaries and related employee benefits increased by $19.4 million or 10.1%. Salaries and benefits increased due to hiring more faculty and staff, equity and retention increases, and a cost of living increase. The increase in benefits is due to the increase in salaries which subsequently increased the amount of taxes and retirement contributions paid by the University.

General and administrative, and maintenance and utilities expenses increased by $6.3 million or 11.7%. Accounting for that change was an increase in computer and software purchases, office furniture purchases, and instructional equipment and supplies.

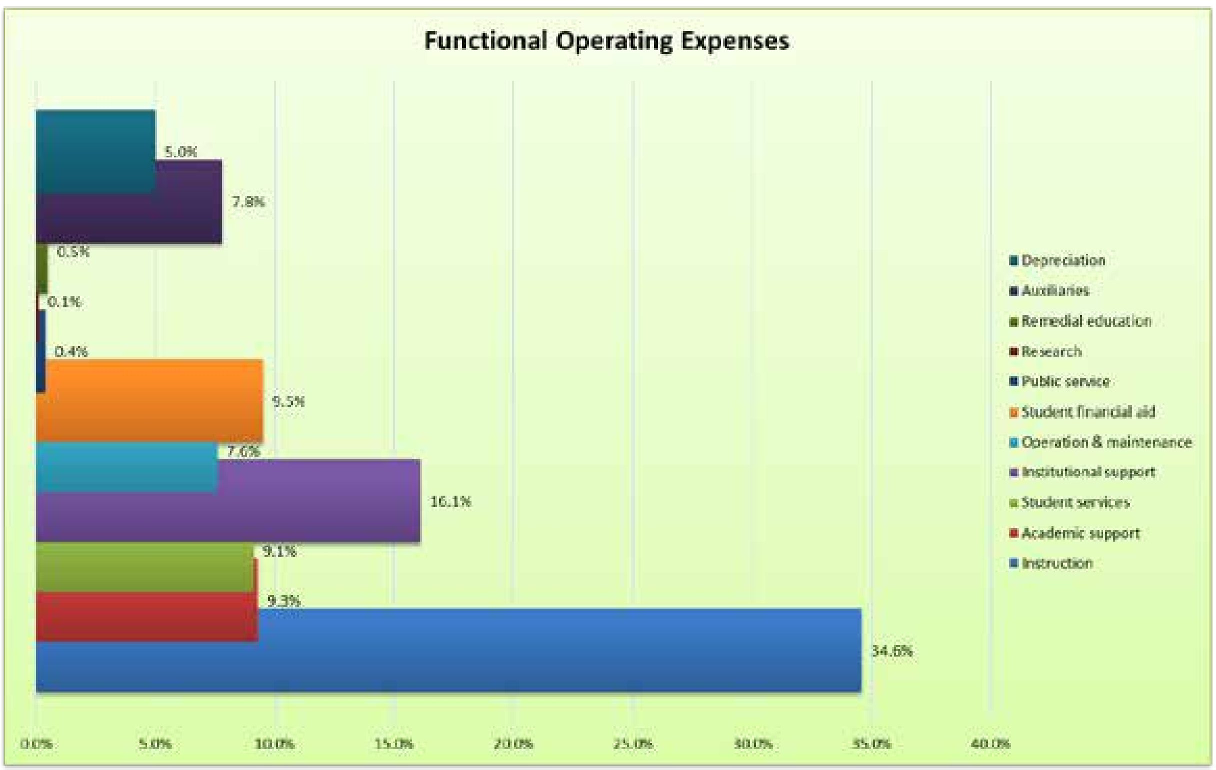
Total nonoperating revenues and expenses increased slightly from the prior year. State appropriations increased by $3.8 million or 3.7%. The increase in State appropriations was offset by a 1.9% decrease in grants and contacts of $1.2 million mostly due to a decrease in Pell grants. Investment income increased $0.9 million or 67.6% due to implementing new investment strategies and an increase in interest rates. Gifts also increased by 15.4% or $0.6 million due to efforts to raise funds.

Capital appropriations increased by $2.4 million due to the completion of the construction projects in 2017.

The following is a summary of the University's expenses by programmatic (functional) classification for the years ended June 30, 2017, and 2016:

	June 30, 2017	June 30, 2016	Change	% Change
Operating Expenses				
Instruction	$ 113,270,825	$ 107,058,062	$ 6,212,763	5.8%
Academic support	30,419,133	28,471,884	1,947,249	6.8%
Student services	29,621,050	28,182,768	1,438,282	5.1%
Institutional support	52,750,954	40,599,824	12,151,130	29.9%
Operation & maintenance	24,930,003	22,497,675	2,432,328	10.8%
Student financial aid	31,142,147	31,532,669	(390,522)	(1.2%)
Public service	1,177,230	1,314,713	(137,483)	(10.5%)
Research	335,903	292,268	43,635	14.9%
Remedial education	1,567,253	1,660,728	(93,475)	(5.6%)
Auxiliaries	25,416,741	24,217,346	1,199,395	5.0%
Depreciation	16,383,638	15,602,305	781,333	5.0%
Total Operating Expenses	**$ 327,014,877**	**$ 301,430,242**	**$ 25,584,635**	**8.5%**

The following graph illustrates functional operating expenses as a percent of the total for the year ended June 30, 2017.



The $6.2 million increase in instruction related costs are due primarily to an increase of $6.0 million in salaries and benefits. Costs associated with academic support increased from the prior year by $1.9 million or 6.8%. The increase was due primarily to an increase of $1.7 million in salaries and benefits and a $0.7 million increase in general and administrative costs. Institutional support expenses increased by $12.1 million or 29.9%. The increase was due to an increase in compensation and benefits of $9.1 million and an increase in general and administrative expenses of $3.2 million. A large portion of the increase in benefits relates to an increase in medical claims near the end of the fiscal year.

Operation and maintenance expenditures increased $2.5 million due mainly to an increase in general and administrative costs of $1.2 million and maintenance costs of $1.0 million.

The functional expense of student financial aid decreased slightly by $0.4 million from the prior year. This decrease is attributed to a decrease in Pell Grants.

Public service decreased $0.1 million or 10.5% which was primarily due to a decrease in salaries and benefit expenses of $0.1 million. Remedial education also decreased by $0.1 million or 5.6% due to a decrease in salaries and benefits of $0.1 million from the prior year.

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.

	June 30, 2017	June 30, 2016	Change	% Change
Cash provided (used) by:				
Operating activities	$ (146,337,238)	$ (133,242,974)	$ (13,094,264)	9.8%
Noncapital financing activities	173,839,358	167,624,993	6,214,365	3.7%
Capital and related financing activities	(31,281,688)	(18,536,703)	(12,744,985)	68.8%
Investing activities	(23,750,347)	1,496,698	(25,247,045)	(1,686.8%)
Change in cash	(27,529,915)	17,342,014	(44,871,929)	(258.7%)
Cash - beginning of year	93,265,318	75,923,304	17,342,014	22.8%
Cash – end of year	**$ 65,735,403**	**$ 93,265,318**	**$ (27,529,915)**	**(29.5%)**

The University's cash decreased by $27.5 million mostly due to an increase in investments of $26.0 million.

Capital and related financing activities cash outflows increased by $12.7 million or 68.8%. This increase in cash outflows is due mainly to an increase in purchasing of capital assets of $16.8 million. There was also a decrease in the principle payments of debt of $2.0 million from the prior year.

Operating activities include cash inflows from tuition received ($136.7 million) and sales from auxiliary services ($18.5 million), as well as cash outflows from payments related to employee salaries and benefits ($206.8 million) and student aid in the form of scholarships and fellowships ($30.5 million). Cash outflows from operating activities was $13.1 million more than in 2016. Most of the increase in cash outflows, $16.4 million, was due to payments related to employee services and benefits. This increase in cash outflows was partially offset by an increase in cash inflows of tuition and fees of $11.3 million from the prior year.

Noncapital financing activities increased slightly from the prior year, but there were some increases and decreases within this category worthy of mention. State appropriations increased $5.8 million from the prior year to provide total cash inflows of $109.1 million. Grants and contracts provided cash of $60.5 million, which was a decrease of $0.5 million from the prior year. The cash inflows of $173.8 million provided by noncapital financing activities was offset by cash outflows in operating ($146.3 million), capital related financing ($31.3 million), and investing activities ($23.8 million).

Ratios

Ratios can provide useful information about the University's financial condition. Below are various ratios and their explanation.

	2017	2016
Primary Reserve Ratio	28.6%	33.9%
Viability Ratio	1.5	1.6
Debt Burden Ratio	2.0%	2.9%
Return On Net Asset Ratio	2.0%	3.6%
Net Operating Revenues Ratio	1.8%	4.4%

Primary Reserve Ratio – The Primary Reserve Ratio measures the financial strength of the University. It is calculated by dividing expendable net position by operating expenses and provides a snapshot of financial strength and flexibility by indicating the ability of the University to continue operating at current levels, within current restrictions, without future revenues. A ratio of 1.0 denotes that an institution would have the ability to cover its expenses for one year without a revenue stream. The University's Primary Reserve Ratio was 30 percent for fiscal year 2015 and 34 percent for fiscal year 2016. Studies suggest institutions have a primary reserve ratio of 40 percent or higher, which would give an institution the ability to cover about 5 months of expenses without an inflow of revenue.

Viability Ratio – The Viability Ratio is a measure of clear financial health which is the availability of expendable net position to cover debt, including bonds, notes, and capital leases, should the University need to settle its obligations as of the fiscal year end. A ratio of 1.00 or greater indicates an institution has sufficient expendable net position to satisfy debt requirements. The University's Viability Ratio was 1.27 for fiscal year 2015 and 1.61 for fiscal year 2016.

Debt Burden Ratio – The Debt Burden Ratio measures the cost of servicing the debt of a university. This ratio examines the institution's dependence on borrowed funds. It compares the level of current debt service with the institution's total expenditures. Total debt service includes the interest and principal payments. Total expenditures include total expenses less depreciation plus debt service principal and interest payments. The University's Debt Burden Ratio for fiscal year 2015 was 2.4 percent and 2.9 percent for fiscal year 2016. The ratio threshold is considered to be 7.0 percent.

Return on Net Assets Ratio – The Return on Net Assets Ratio determines whether a university is financially better off than in previous years by measuring total economic return. The change in net position has been reduced by capital appropriations to more closely reflect operational activities. A positive ratio indicates a net increase in total net position at the end of the year. The University's Return on Net Assets Ratio for fiscal year 2015 was 5.0 percent and was 3.6 percent for 2016.

Net Operating Revenues Ratio – The Net Operating Revenues Ratio indicates whether a university has an operating surplus or deficit for the year. A positive ratio indicates that the university experienced an operating surplus for the year. The University's Net Operating Revenues Ratio was 5.4 percent for fiscal year 2015 and 4.4 percent for fiscal year 2016.

Outlook

The University's overall financial position is strong and the outlook for the future looks bright. The economy of the State of Utah is better than most states but it is not without its own challenges. The State is expecting the economy to gradually strengthen during 2018. State appropriations for higher education are expected to remain at 2017 levels.

Fall semester of fiscal year 2018, student enrollment increased by 6.6% and tuition increased by 2.5%. Tuition and fees as a percentage of total revenues (40.3%) is greater than the percentage of State appropriations as a percentage of total revenue (31.2%) for the University, therefore, the expectation of appropriations being the same as 2017 amounts will be tempered by the increase in tuition and fees collected. The University is projecting enrollment in the next year to be slightly higher than 2017.

The University will continue to take a conservative approach for construction and expansion of facilities.

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.

Financial Statements

Statement of Net Position

for the year ended June 30, 2017

	Primary Institution UVU	Component Unit UVU Foundation
ASSETS		
Current assets		
Cash and cash equivalents	$ 56,575,033	$ 36,007,300
Restricted cash, cash equivalents	4,948,027	-
Investments	20,000,000	-
Accounts receivable, net	6,101,279	-
Notes and pledges receivable	231,015	10,122,210
Prepaid expenses	501,202	10,857
Inventories	2,867,288	-
Total current assets	91,223,844	46,140,367
Noncurrent assets		
Restricted cash, cash equivalents	4,212,342	-
Investments	51,247,936	37,590,965
Accounts receivable, net	6,431,412	-
Notes and pledges receivable	1,282,533	17,469,963
Other long term assets	-	4,729,657
Capital Assets		
Non depreciable capital assets	63,386,234	-
Depreciable capital assets, net	323,518,990	-
Total noncurrent assets	450,079,447	59,790,585
Total assets	**541,303,291**	**105,930,952**
DEFERRED OUTFLOWS OF RESOURCES	11,921,630	-
LIABILITIES		
Current liabilities		
Accounts payable	6,761,657	-
Accrued liabilities	17,249,235	-
Other liabilities	209,304	-
Unearned revenue	8,426,098	-
Current portion of bonds, notes, and capital leases payable	4,108,854	-
Funds held for others	610,243	-
Total current liabilities	37,365,391	-
Noncurrent liabilities		
Accrued liabilities	3,855,234	266,629
Unearned revenue	961,958	-
Net pension liability	26,374,329	-
Bonds, notes, and capital leases payable	57,321,038	-
Total noncurrent liabilities	88,512,559	266,629
Total liabilities	**125,877,950**	**266,629**
DEFERRED INFLOWS OF RESOURCES	4,207,930	
NET POSITION		
Net investment in capital assets	329,467,067	-
Restricted		
Nonexpendable: Scholarships	-	30,277,353
Expendable:		
Grants and contracts	4,069,411	-
Scholarships and loans	1,917,261	67,204,698
Unrestricted	87,685,302	8,182,272
Total net position	**$ 423,139,041**	**$ 105,664,323**

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

Statement of Revenues, Expenses, and Changes in Net Position

for the year ended June 30, 2017

	Primary Institution UVU	Component Unit UVU Foundation
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarships and allowances of $42,744,714)	$ 137,605,375	$ -
Private grants and contracts	236,183	-
Grants and contracts	289,446	-
Sales and services of education departments	3,489,761	-
Auxiliary enterprises (net of scholarships and allowances of $2,131,626)	15,023,914	-
Other operating revenues	5,302,743	-
Total operating revenues	**161,947,422**	**-**
EXPENSES		
Operating expenses		
Salaries	148,196,399	-
Fringe benefits	63,107,498	-
Student financial aid	30,463,806	1,837,238
Maintenance and utilities	15,165,870	-
General and administrative	45,461,944	6,213,364
Cost of goods sold - auxiliary enterprises	8,235,722	-
Depreciation	16,383,638	-
Total operating expenses	327,014,877	8,050,602
Operating loss	**(165,067,455)**	**(8,050,602)**
NONOPERATING REVENUES (EXPENSES)		
State appropriations	106,398,062	-
Federal grants and contracts	54,271,911	-
State grants and contracts	6,858,860	-
Gifts	4,239,863	13,752,941
Investment income (net of Foundation investment expense of $233,574)	2,145,270	5,405,961
Interest on capital asset-related debt	(2,499,163)	-
Other nonoperating revenues (expenses)	(191,098)	-
Net nonoperating revenues (expenses)	171,223,705	19,158,902
Income before other revenues, expenses, gains, or losses	**6,156,250**	**11,108,300**
Capital appropriations	3,483,392	-
Gifts to endowments	-	6,703,099
Capital grants and gifts	2,124,263	-
Total other revenues	5,607,655	6,703,099
Increase in net assets	**11,763,905**	**17,811,399**
NET POSITION		
Net position--beginning of year	411,375,136	87,852,924
Net position--end of year	**$ 423,139,041**	**$ 105,664,323**

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

Statement of Cash Flows

for the year ended June 30, 2017

	Primary Institution UVU
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tuition and fees	$ 136,735,420
Receipts from grants and contracts	525,629
Receipts from auxiliary and educational sales and services	18,496,315
Collection of loans to students	235,542
Payments to suppliers	(70,561,952)
Payments for employee services and benefits	(206,811,957)
Payments for student aid: scholarships and fellowships	(30,529,249)
Loans issued to students	(202,000)
Other operating receipts	5,775,014
Net cash used by operating activities	**(146,337,238)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	109,112,743
Federal, state and private grants and contracts	60,532,757
Gifts	4,193,858
Net cash provided by noncapital financing activities	**173,839,358**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(26,698,719)
Principal paid on capital debt and leases	(3,688,501)
Interest paid on capital related debt	(2,714,133)
Proceeds from capital debt issued	1,819,665
Net cash used by capital and related financing activities	**(31,281,688)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	21,000,000
Receipt of interest on investments	2,249,653
Purchase of investments	(47,000,000)
Net cash used by investing activities	**(23,750,347)**
Net decrease in cash	(27,529,915)
Cash and cash equivalents - beginning of year	93,265,318
Cash and cash equivalents - end of year	**$ 65,735,403**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	**$ (165,067,455)**
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation expense	16,383,638
DFCM projects not capitalized	(2,711,439)
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources	
Receivables, net	(607,940)
Inventories	(134,043)
Prepaid expenses	256,247
Accounts payable	929,461
Accrued liabilities	3,954,584
Unearned revenue	174,584
Funds held for others	(189,623)
Other liabilities	(105,785)
Net pension asset	2,225
Deferred outflows of resources	(31,331)
Net pension liability	(833,883)
Deferred inflows of resources	1,643,522
Net Cash Used by Operating Activities	**$ (146,337,238)**
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Donated library books	$ 40,163
Donated assets	2,084,100
Assets contributed by DFCM	3,636,764
Adjustments to fair market value of investments	247,936
Total Noncash Activities	**$ 6,008,963**

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

Notes to the Financial Statements

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 Governmental Accounting Standards Board (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. Note 21 contains selected notes from the Foundation's audited financial statements.

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 and Cash Equivalents

Cash and Cash Equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date. Funds invested through the Utah Public Treasurers' Investment Fund (PTIF) are considered cash equivalents.

Investments

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. The University distributes earnings from pooled investments based on the average daily investment of each participating account.

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 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 of at least two years. 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 $250,000. Library books are capitalized and depreciated over their useful lives. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 40 years for buildings and improvements, 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 (3) unearned revenue, (4) the University's share of any unfunded liability associated with its participation in the defined benefit plans managed by Utah Retirement Systems.

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 and prepaid rental income that have not yet been earned.

Compensated Absences

Salaried, non-faculty full-time employees are entitled to accrue and carry forward at a calendar year-end a maximum of 30 days of annual vacation leave. Upon termination of employment, employees are entitled to be paid for accumulated unused annual vacation leave, 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 student tuition and fees, grants and contracts, and revenue from various auxiliary and public service functions.

Nonoperating Revenues: Nonoperating revenues include state appropriations, Pell grants and certain government grants, gifts, and investment income.

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 ....

The University records its share of any unfunded liability associated with participation in the defined benefit plans of the Utah Retirement Systems (Systems). For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems' Pension Plan and additions to/deductions from the Systems' fiduciary net position are determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

A deferred outflow of resources related to 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 (See Note 8).

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 net investment in capital assets.

Restricted net position – nonexpendable: Nonexpendable restricted net position consists 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 represents 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.

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 federal and 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

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the entity's deposits may not be returned. The University does not have a formal deposit policy for custodial credit risk. As of June 30, 2017, $9,524,697 of the University's bank balances of $9,774,697 were uninsured and uncollateralized.

Investments

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 that relate to the deposit and investment of public funds.

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

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).

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

Statutes authorize the University to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations; 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), and Federal National Mortgage Association (Fannie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Money Management Act; and the Utah State Public Treasurers’ Investment Fund.

The Utah State Treasurer’s Office operates the Public Treasurers’ Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer and is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management 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 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.

Fair Value of Investments

The University measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

At June 30, 2017, the University had the following recurring fair value measurements:

		Fair Value Measurement at Reporting Date Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
PTIF	$ 61,328,273	$ -	$ 61,328,273	$ -
Corporate bonds	69,246,947	-	69,246,947	-
Municipal/public bonds	2,000,989	-	2,000,989	-
Total	**$ 132,576,209**	**$ -**	**$ 132,576,209**	**$ -**

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 are valued using the following approaches:

- U.S. Treasuries, U.S. Agencies, and Commercial Paper: quoted prices for identical securities in markets that are not active;
- Corporate and Municipal Bonds: quoted prices for similar securities in active markets;
- Utah Public Treasurers' Investment Fund: the Utah State Treasurer provides a fair value factor to the University based on the average daily balance in the Fund.

Debt securities, namely collateralized debt obligations if any, classified in Level 3 are valued using consensus pricing.

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 State's Money Management Act or the UPMIFA and Rule 541, as applicable. For non-endowment funds, Section 51-7-11 of the Money Management Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270 days - 15 months or less. The Act further limits the remaining term to maturity on all investments in obligations of the United States Treasury; obligations issued by U.S. government sponsored enterprises; and bonds, notes, and other evidence of indebtedness of political subdivisions of the State to 10 years for institutions of higher education. 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.

As of June 30, 2017, the University had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years) Less than One	One to Five	Five to Ten	Ten to Twenty
PTIF	$ 61,328,273	$ 61,328,273	$ -	$ -	$ -
Corporate bonds	69,246,947	18,032,966	51,213,981	-	-
Municipal/public bonds	2,000,989	2,000,989	-	-	-
Total	$ 132,576,209	$ 81,362,228	$ 51,213,981	$ -	$ -

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, 2017, the University had investments and quality ratings as follows:

Investment Type	Fair Value	Quality Rating Aa1 to AA-	A1 to A-	Baa1 to BBB	Unrated
PTIF	$ 61,328,273	$ -	$ -	$ -	$ 61,328,273
Corporate bonds	69,246,947	500,761	24,025,208	44,720,978	-
Municipal/public bonds	2,000,989	2,000,989	-	-	-
Totals	$ 132,576,209	$ 2,501,750	$ 24,025,208	$ 44,720,978	$ 61,328,273

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 at the time of purchase. 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. The University held more than 5% of its total investments in the following corporate bonds: CitiGroup Inc. (7.4%), Bank of America (6.8%), Capital One NA (5.3%), and Goldman Sachs Group Inc. (6.1%). These investments represent 25.6% of the University's total investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk. At June 30, 2017, the University had $69,246,947 in corporate bonds and $2,000,989 in municipal/public bonds, which were uninsured and held by the counterparty's trust department, but not in the University's name.

NOTE 3. ACCOUNTS, NOTES, AND PLEDGES RECEIVABLE

University accounts receivable consisted of the following at June 30, 2017:

Current accounts receivable, net	
Student tuition and fees	$ 1,486,749
Investment interest	209,339
Operating activities	558,504
Auxiliary enterprises	778,073
Grants and contracts	1,337,227
Total	4,369,892
Less allowance for doubtful accounts	(548,721)
Total	3,821,171
Current accounts receivable-state agency	
Operating activities	675,022
Utah Department of Facilities Construction and Management	50,117
Grants and contracts	1,554,969
Total	2,280,108
Noncurrent accounts receivable, net	
Student tuition and fees	6,641,700
Operating activities	2,240,991
Less allowance for doubtful accounts	(2,451,279)
Total	6,431,412
Total	**$ 12,532,691**

University notes and pledges receivable consisted of the following at June 30, 2017:

Current notes and pledges receivable, net	
Loans to students	$ 284,056
Less allowance for doubtful accounts	(53,041)
Total	231,015
Noncurrent notes and pledges receivable, net	
Loans to students	1,555,624
Less allowance for doubtful accounts	(273,091)
Total	1,282,533
Total	**$ 1,513,548**

Student loans made through the Federal Perkins Loan Program comprise substantially all of the notes receivable at June 30, 2017. 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.

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, 2017, the allowance for uncollectible loans was $326,132.

NOTE 4. INVENTORIES

Inventories at June 30, 2017 were as follows:

Auxiliary enterprises	$ 2,196,781
Supplies and other inventory	670,507
Total	**$ 2,867,288**

NOTE 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

University accounts payable consisted of the following at June 30, 2017:

Current accounts payable	
Interest payable	$ 361,858
Vendors payable	2,575,776
Grants and contracts	623,421
Employee deposits payable	212,050
Total	3,773,105
Current accounts payable-related party	
Interest payable	41,196
Current accounts payable-state agency	
State taxes payable	13,159
Other payable	92,352
Division of Facilities and Construction Management payable	2,841,845
Total accounts payable - state agency	2,947,356
Total	**$ 6,761,657**

University accrued liabilities consisted of the following at June 30, 2017:

Current accrued liabilities	
Federal taxes payable	$ 1,510,431
Wages payable	4,510,304
Early retirement payable	350,671
Accrued leave payable	2,510,986
Medical and dental claims payable	4,652,857
Student reimbursements	632,892
Payroll liabilities	1,721,494
Total	15,889,635
Current accrued liabilities-state agency	
State taxes payable	774,666
Payroll liabilities	584,934
Total	1,359,600
Noncurrent accrued liabilities	
Early retirement payable	654,086
Accrued leave payable	3,201,148
Total	3,855,234
Total	**$ 21,104,469**

NOTE 6. UNEARNED REVENUE

Unearned revenue of the University consisted of the following at June 30, 2017:

Current unearned revenue	
Prepaid tuition and fees	$ 8,083,128
Grants and contracts	213,365
Prepaid rental income	93,844
Total	8,390,337
Current unearned revenue - State agency	
Grants and contracts	35,761
Noncurrent unearned revenue	
Grants and contracts	445,817
Prepaid rental income	516,141
Total unearned revenue	**$ 9,388,056**

NOTE 7. CAPITAL ASSETS

The following are the changes in capital assets of the University for the year ended June 30, 2017:

	Beginning Book Value	Increases	Decreases	Ending Book Value
Capital assets not being depreciated				
Land	$ 44,433,615	$ 1,497,286	$ -	$ 45,930,901
Land improvements – nondepreciable	6,911,491	-	-	6,911,491
Works of art and historical treasures	1,808,518	2,271,906	-	4,080,424
Construction in process	2,134,171	18,643,368	(14,314,121)	6,463,418
Total not being depreciated	55,287,795	22,412,560	(14,314,121)	63,386,234
Capital assets being depreciated				
Land improvements – depreciable	9,466,215	1,168,804	-	10,635,019
Infrastructure	23,628,735	-	-	23,628,735
Buildings	372,620,897	20,405,737	(186,773)	392,839,861
Leasehold Improvements	2,543,205	-	-	2,543,205
Equipment	54,252,604	4,743,851	(765,425)	58,231,030
Library books	7,120,422	253,810	(305,000)	7,069,232
Total being depreciated	469,632,078	26,572,202	(1,257,198)	494,947,082
Less accumulated depreciation				
Land improvements – depreciable	(6,233,208)	(675,776)	-	(6,908,984)
Infrastructure	(7,987,627)	(782,120)	-	(8,769,747)
Buildings	(97,872,038)	(9,623,869)	109,723	(107,386,184)
Leasehold Improvements	(623,436)	(81,688)	-	(705,124)
Equipment	(39,844,572)	(4,890,992)	760,969	(43,974,595)
Library Books	(3,659,265)	(329,193)	305,000	(3,683,458)
Total accumulated depreciation	(156,220,146)	(16,383,638)	1,175,692	(171,428,092)
Total depreciable capital assets, net	313,411,932	10,188,564	(81,506)	323,518,990
Total capital assets, net	**$ 368,699,727**	**$ 32,601,124**	**$ (14,395,627)**	**$ 386,905,224**

NOTE 8. DEFERRED OUTFLOWS/DEFERRED INFLOWS OF RESOURCES

The University has the following deferred outflows and inflows of resources at June 30, 2017:

Deferred Outflows of Resources	
Deferred amount on refunding of bonds	$ 225,210
Changes in assumptions	2,691,202
Difference between projected and actual earnings on pension investments	5,427,809
Changes in proportion and differences between contributions and proportionate share of contributions	810,922
Pension contributions made after the measurement date	2,766,487
Total	$ 11,921,630

Deferred Inflows of Resources	
Difference between expected and actual pension experience	$ 1,412,083
Change in actuarial assumptions	316,135
Difference between projected and actual earnings on pension investments	
Changes in proportion and differences between contributions and	1,557,121
proportionate share of contributions	922,591
Total	$ 4,207,930

NOTE 9. 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, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	$ 46,850,000	$ -	$ (2,440,000)	$ 44,410,000	$ 2,530,000
Premium	4,949,572	-	(295,542)	4,654,030	295,541
Discount	(4,165)	-	1,042	(3,123)	(1,042)
Total bonds payable	51,795,407	-	(2,734,500)	49,060,907	2,824,499
Capital leases	4,395,194	-	(611,774)	3,783,420	668,915
Notes payable	7,402,629	1,819,665	(636,729)	8,585,565	615,440
Total bonds, notes and capital leases	63,593,230	1,819,665	(3,983,003)	61,429,892	4,108,854
Net pension liability	27,208,212	4,719,610	(5,553,493)	26,374,329	-
Early retirement	815,851	457,258	(268,352)	1,004,757	350,671
Accrued leave	5,430,112	4,701,263	(4,419,241)	5,712,134	2,510,986
Total	**$ 97,047,405**	**$ 11,697,796**	**$ (14,224,089)**	**$ 94,521,112**	**$6,970,511**

NOTE 10. BONDS PAYABLE

Bonds payable consist of the Municipal Building Authority of Utah County, Utah, Lease Revenue Bonds, (Federally Taxable) Series 2004A {MBA 2004A}; 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 (Utah Valley State College Project) 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 were issued for the purpose of (i) financing the acquisition and construction of a baseball stadium and related improvements; (ii) satisfying a reserve fund requirement; and (iii) 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 for and on behalf of the University on June 20, 2012. 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, 2017 consisted of the following:

Description	Original Issue	Balance June 30, 2017	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	$ 1,065,000	$ 335,000
Less discount	(16,666)	(3,123)	(1,042)
Total net MBA 2004A	3,883,334	1,061,877	333,958
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	1,515,000	355,000
Plus premium	105,719	24,873	6,219
Total net SBR 2004A	11,125,719	1,539,873	361,219
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	41,830,000	1,840,000
Plus premium	6,075,767	4,629,157	289,322
Total net SBR 2012A	55,325,767	46,459,157	2,129,322
Total net bonds	**$ 70,334,820**	**$ 49,060,907**	**$ 2,824,499**

Principal and interest on the SBR 2004A Bonds, the MBA 2004A 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. The revenues are pledged until fiscal year 2033 when the last bond is retired. The total pledged revenues are estimated to be equal to future debt service payments of $61,342,450.

The following is a summary of the pledged revenues for fiscal year 2017 and the bond payments due in fiscal year 2018:

Pledged revenues	
Building fee – Spring	$ 2,131,141
Building fee – Summer	575,162
Building fee – Fall	2,264,428
Total building fees	4,970,731
Interest income	44,824
Unified system revenues	794,916
Total pledged revenues	5,810,471
Principal and interest payments for fiscal year 2018	
SBR 2004A Bonds	413,804
MBA 2004A Bonds	388,850
SBR 2012A Bonds	3,681,750
Total principal and interest payments to be covered by pledged revenues	$ 4,484,404

In addition, the SBR 2004A Bonds and the MBA 2004A Bonds are insured by a financial guaranty insurance policy issued by XL Capital Assurance Inc. The SBR 2004A Bonds and the MBA 2004A 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 with a balance of $3,726,825.

The scheduled maturities of bonds payable at June 30, 2017, are as follows:

Year	Principal	Interest	Total
2018	$ 2,530,000	$ 1,954,404	$ 4,484,404
2019	2,635,000	1,843,113	4,478,113
2020	2,750,000	1,726,695	4,476,695
2021	2,470,000	1,616,763	4,086,763
2022	2,150,000	1,512,600	3,662,600
2023-2027	12,480,000	5,795,000	18,275,000
2028-2032	15,820,000	2,412,375	18,232,375
2033	3,575,000	71,500	3,646,500
Total	**$44,410,000**	**$16,932,450**	**$61,342,450**

NOTE 11. OPERATING LEASES

The University leases airport facilities and land under non-cancelable operating leases. Total costs for such leases were $277,115 for the year ended June 30, 2017.

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
2018	$ 390,214
2019	400,694
2020	162,150
2021	42,868
2022	42,868
2023-2027	159,824
2028-2030	44,237
Total future minimum lease payments	**$1,242,855**

NOTE 12. 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 $10,740,566 as of June 30, 2017. Accumulated depreciation of leased assets totaled $4,124,173 at June 30, 2017.

The assets acquired through capital leases are as follows:

Student Services equipment	$ 16,831
Less accumulated depreciation	(13,898)
ESCO Energy Savings Projects	10,723,735
Less accumulated depreciation	(4,110,275)
Total net capital lease assets	**$ 6,616,393**

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, 2017:

Fiscal Year Ending June 30	Capital Leases
2018	$ 838,439
2019	862,387
2020	891,192
2021	920,958
2022	757,142
Total future minimum lease payments	4,270,118
Amounts representing interest	(486,698)
Present value of net minimum lease payments	**$ 3,783,420**

NOTE 13. 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% 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, 2017, 16 employees participated in the early retirement plan, most of which received both stipends and medical benefits. Of the 16 early retirees participating in the program, 15 participants received medical and dental insurance benefits and 11 participants 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 1.59% and 1.01% 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 1.15% 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, 2017, the expenses for the 20% incentive stipend were $128,040 and the expenses for medical and dental insurance were $140,312.

NOTE 14. PENSION PLANS AND RETIREMENT BENEFITS

In compliance with State law, eligible employees of the University are covered by either defined benefit plans and/or defined contribution plans sponsored by the Utah Retirement Systems (Systems) or the University's 401(a) defined contribution plan with investment options through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA) and Fidelity Investments (Fidelity). Employees may also participate in defined contribution plans consisting of 401(k), 403(b) and 457 plans managed by the Systems.

Defined Benefit Plans

Eligible employees of the University are provided with the following plans administered by Utah Retirement Systems (the Systems):

- Tier 1 Public Employees Noncontributory Retirement System (Noncontributory System) and the Public Employees Contributory Retirement System (Contributory System) are multiple employer cost-sharing, public employee retirement systems.
- Tier 2 Public Employees Hybrid Retirement System (Tier 2 Public Employee System) is a multiple employer, cost sharing, public employee retirement system.

The Tier 2 Public Employee System was created July 1, 2011. All eligible employees who have no previous service credit with any of the Utah Retirement Systems prior to that date, are members of the Tier 2 Retirement Systems.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated, 1953, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds and are a component unit of the State of Utah. Chapter 49 of the Utah Code grants the authority to establish and amend the benefit terms. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems at 560 East 200 South, Salt Lake City, UT 84102 or visiting the website www.urs.org.

Benefits provided: The Systems provide retirement, disability, and death benefits to participants in the defined benefit pension plans. Retirement benefits for each defined benefit plan are as follows:

System	Final Average Salary	Years of Service Age of Eligibility	Benefit % Per Year	COLA**
Noncontributory System	Highest 3 Years	30 Years any age 25 Years any age* 20 Years age 60* 10 Years age 62* 4 Years age 65	2% per year all years	up to 4%
Contributory System	Highest 5 Years	30 Years any age 25 Years any age* 20 Years age 60* 10 Years age 62* 4 Years age 65	1.25% per year to June 1975 2.00% per year July 1975 to present	up to 4%
Tier 2 Public Employees System	Highest 5 Years	35 Years any age 20 Years age 60* 10 Years age 62* 4 Years age 65	1.5% per year to all years	up to 2.5%

* With actuarial reductions

** All post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit.
The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI} increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

*Contributions***:** As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the Systems' Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable), is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability.

For the year ended June 30, 2017, the University's required contribution rates for the plans were as follows:

Systems	Employee Paid	Employer Paid for Employee	Employer Contribution Rates
Noncontributory System	N/A	N/A	22.19%
Contributory System	N/A	6.00%	17.70%
Tier 2 Public Employees System*	N/A	N/A	18.24%

*Tier 2 rates include a 9.94% required contribution to finance the unfunded actuarial accrued liability of the non-Tier 2 plans.

For the year ended June 30, 2017, the University and employee contributions to the plans were as follows:

Systems	Employer Paid	Employee Paid
Noncontributory System	$ 4,263,696	N/A
Contributory System	99,355	N/A
Tier 2 Public Employees System	1,074,235	N/A
	$ 5,437,286	

Pension assets, liabilities, pension expense, and deferred outflows of resources, and deferred inflows of resources related to pensions: The net pension asset and liability were measured as of December 31, 2016. The total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2016, and rolled forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability were based upon actual historical employer contributions to the defined pension plans from the census data submitted to the plan for pay periods ending in 2016. At December 31, 2016, the University's proportionate shares in the defined benefit pension plans were as follows:

	Proportionate Share	Net Pension Asset	Net Pension Liability
Contributory System	2.6063328%	$ -	$ 24,860,655
Noncontributory System	0.7670871%	-	1,428,160
Tier 2 Public Employees System	0.7665995%	-	85,514
Total Net Pension Asset/Liability		$ -	$ 26,374,329

For the year ended June 30, 2017, the University reported pension expense of $6,334,026. At June 30, 2017, the University reported the portion of the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 1,412,083
Change in assumptions	2,691,202	316,135
Net difference between projected and actual earnings on pension plan investments	5,427,809	1,557,121
Changes in proportion and differences between contributions and proportionate share of contributions	810,922	922,591
Contributions subsequent to the measurement date	2,766,487	-
	$ 11,696,420	$ 4,207,930

Contributions made between January 1, 2017, and June 30, 2017, of $2,766,487 are reported as deferred outflows of resources related to pensions. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending December 31,	Deferred Inflows (Inflows) of Resources
2017	$ 1,517,972
2018	1,582,881
2019	1,875,839
2020	(284,223)
2021	2,734
Thereafter	26,799
	$ 4,722,002

Actuarial assumptions: The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Salary increases	3.35% to 10.35%, average, including inflation
Investment rate return	7.20%, net of pension plan investment expense, including inflation

Mortality rates were developed from actual experiences and mortality tables, based on gender, occupation, and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by Society of Actuaries.

The actuarial assumptions used in the January 1, 2016, valuation were based on the results of an actuarial experience study for the five-year period ending December 31, 2013.

Changes in Assumptions: The following actuarial assumption changes were adopted January 1, 2016. The assumed investment return assumption was decreased from 7.50% to 7.20% and the assumed inflation rate was decreased from 2.75% to 2.60%. With the decrease in the assumed rate of inflation, both the payroll growth and wage inflation assumptions were decreased by 0.15% from the prior year's assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	Expected Return Arithmetic Basis		
Asset Class	**Target Asset Allocation**	**Real Return Arithmetic Basis**	**Long-term Expected Real Rate of Return**
Equity securities	40%	7.06%	2.82%
Debt securities	20%	0.80%	0.16%
Real Assets	13%	5.10%	0.66%
Private equity	9%	11.30%	1.02%
Absolute return	18%	3.15%	0.57%
Cash and cash equivalents	0%	0%	0%
Totals	100%		5.23%
Inflation			2.60%
Expected arithmetic nominal return			7.83%

The 7.2% assumed investment rate of return is comprised of an inflation rate of 2.60%, a real return of 4.60% that is net of investment expense.

Discount rate: The discount rate used to measure the total pension liability was 7.2%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the Systems' Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. The long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. The discount rate was reduced to 7.2% from 7.5% from the prior year measurement period.

Sensitivity of the University's proportionate share of the net pension asset and liability to changes in the discount rate: The following presents the proportionate share of the net pension asset and liability calculated using the discount rate of 7.2%, as well as, what the proportionate share would be if calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

System	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Noncontributory System	$ 45,582,463	$ 24,860,655	$ 7,493,758
Contributory System	3,511,102	1,428,160	(340,839)
Tier 2 Public Employees System	582,062	85,514	(292,236)
Total	$ 49,675,627	$ 26,374,329	$ 6,860,683

Pension plan fiduciary net position: Detailed information about the pension plans' fiduciary net position is available in the separately issued URS financial report.

TIAA and Fidelity: Under the University's 401(a) plan, TIAA and Fidelity provide eligible employees 401(a) retirement accounts and investment options. Participating employees allocate employer provided contributions to the investment options of their choosing through TIAA and/or Fidelity. Contributions are vested at the time the contribution is made. Employees are eligible to participate from the date of eligible employment and no employee contributions are required. Benefits provided to retired employees are based on employer contributions and investment performance. For the year ended June 30, 2017, the University's contribution to these defined contribution plans was 14.20% of the employees' eligible employment earnings. The University has no further liability once contributions are made.

Tier 2 Employees System, 401(k), 457 and 403(b) Plans: Employees are also eligible to (under certain IRS and plan restrictions) make individual contributions on a tax-deferred and after-tax bases to 401(k), 457, 403(b), Traditional IRA, Roth IRA, and Roth 457 & 403(b) defined contribution plans. These plans are available as supplemental plans to the basic retirement plans offered by the University and as a primary retirement plan for some Tier 2 Public Employee System participants. Under certain IRS and plan restrictions, employees can make additional contributions. Employer contributions may be made into the plans at rates determined by the employer and according to Utah Title 49. Participants are fully vested at the time contributions are made except for Tier 2 required employer contributions and associated earnings are vested after the first four years of employment.

The Contributory and Noncontributory Systems require the University to contribute 1.5% to 1.78% of the employee's salary into a 401(k)/457 plan. For employees who participate in the Systems Tier 2 retirement and elect the defined contribution option (instead of the defined benefit option, Hybrid Retirement System), the University is required to contribute 20.02% of the employees' salary of which 10% is paid into a 401(k)/457 plan while the remainder is contributed to the Tier 1 Public Employee System, as required by law.

Contributions to the defined contributions plans for the fiscal year ending June 30, 2017, were as follows:

Defined Contribution Plans	Employer Paid	Employee Paid
Tier 2 Public Employee System	$ 128,723	N/A
TIAA and Fidelity	12,691,081	$ 1,988,875
401(k) Plan	516,648	605,860
457 Plan	-	90,046
Roth IRA Plan	N/A	61,550

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 & DENTAL CARE

On 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 and United Healthcare (UMR) to provide excess insurance and certain administrative and management services such as the evaluation and payment of claims for dental and health, respectively. 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:

	2017	2016
Estimated claims liability - beginning of year	$ 2,127,548	$ 1,580,227
Current year claims and changes in estimates	30,735,922	25,434,839
Claim payments and administrative expenses	(28,210,613)	(24,887,518)
Estimated claims liability - end of year	**$ 4,652,857**	**$ 2,127,548**

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% 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, 2017, the University had the following outstanding commitments to DFCM for various projects:

Autism Building	$ 734,188
Computer Science Building	529,230
Health Professional Building	75,187
Student Center Valley View Room	175,750
Basketball Practice Facility	229,522
Admin Building Brick	114,220
Pope Science Building Remodel	1,091,336
Student Center HVAC	641,945
UVU Canyon Business Park	134,226
Sorensen Center Remodel	1,059,225
Performing Arts Building	22,527,373
Total	**$ 27,312,202**

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. During the year ended June 30, 2017, the University borrowed $1,819,665 to acquire land. The note carries a term of 7 years and bears an interest rate of 5.5% with semi-annual payments of $158,356. This note matures in June 2023. The amount owed as of June 30, 2017, was $ 1,587,801.

During the year ended June 30, 2014, the University borrowed $6,138,268 to acquire land. The note carries a term of 20 years and bears an interest rate of 5.5% with semi-annual payments of $254,932. This note matures in June 2034. The amount owed as of June 30, 2017, was $5,584,635.

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% interest rate with semi-annual payments of $129,787. The amount owed as of June 30, 2017, was $1,413,129. The expected maturity is March 2024.

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

	Notes Payable	
	Principal	Interest
2018	$ 615,440	$ 470,709
2019	650,667	435,481
2020	687,914	398,235
2021	727,296	358,852
2022	768,937	317,211
2023-2027	2,205,889	1,082,214
2028-2032	1,976,123	573,193
2033-2034	953,299	66,428
Total	**$ 8,585,565**	**$ 3,702,323**

B. During the year ended June 30, 2017, 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, 2017 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 for June 30, 2017, were as follows:

Year Ended June 30, 2017
Natural Classification

	Compensation	Benefits	Financial Aid	Maintenance	General and Administrative	Auxiliary	Depreciation	Total
Functional Classification								
Instruction	$ 76,507,833	$ 27,786,990	$ -	$ 660,056	$ 8,315,946	$ -	$ -	$ 113,270,825
Academic Support	17,288,708	6,987,117	-	154,144	5,989,164	-	-	30,419,133
Student Services	15,722,198	6,901,449	-	118,180	6,879,223	-	-	29,621,050
Institutional Support	22,102,235	14,357,741	-	1,765,090	14,525,888	-	-	52,750,954
Operation and Maintenance of Plant	6,917,063	3,983,755	-	11,140,639	2,888,546	-	-	24,930,003
Student Financial Aid	659,934	18,407	30,463,806	-	-	-	-	31,142,147
Public Service	570,188	235,476	-	7,428	364,138	-	-	1,177,230
Research	174,328	28,699	-	351	132,525	-	-	335,903
Remedial Education	1,172,170	379,144	-	-	15,939	-	-	1,567,253
Auxiliaries	7,081,742	2,428,720	-	1,319,982	6,350,575	8,235,722	-	25,416,741
Depreciation	-	-	-	-	-	-	16,383,638	16,383,638
Total Expenses	**$ 148,196,399**	**$ 63,107,498**	**$ 30,463,806**	**$ 15,165,870**	**$ 45,461,944**	**$ 8,235,722**	**$ 16,383,638**	**$ 327,014,877**

NOTE 20. SUBSEQUENT EVENTS

In January 2017, URS conducted an actuarial experience study to review performance of the retirement system over the preceding five years. As a result, several actuarial assumptions were changed relating to inflation, cost of living, mortality, retirement, termination and payroll growth rates and, the actuarial return assumption was reduced to 6.95%. The changes were approved by the URS Board and will be recognized in the fiscal 2018 pension disclosures.

NOTE 21. SELECTED NOTES FROM THE UVU FOUNDATION

The UVU Foundation is a separate entity reported as a discretely presented component unit. The following are selected notes from the UVU Foundation's audited financial statements.

Contributions Receivable (see UVU Foundation Note 4)

Contributions are recorded when the unconditional promise to give is expected in the near term and is probable. An allowance for uncollectible contributions is estimated as a percentage of contributions receivable at year end based on the Foundation's historical collection experience. All contributions receivable (at their net present value and net of an allowance for uncollectible amounts) are restricted for various purposes at June 30, 2017 as follows:

UCCU Center	$ 514,891
Scholarships	231,369
School of Business	2,719,070
Performing Arts building	2,757,217
Autism building	2,110,872
Athletics practice facility	222,496
Roots of Knowledge	536,206
Library	1,365,812
Professorships	1,741,255
Other	495,873
Contributions receivable, net	$ 12,695,061

Unconditional promises to give will be received (depending on the donor) from within one year to ten years. Contributions to be received after June 30, 2017 have been discounted to their net present value using the June 2017 Applicable Federal Rates for the anticipated collection period. The Applicable Federal Rates discount rate ranged from 1.18% to 2.68%.

Contributions receivable are as follows at June 30, 2017:

Receivable within one year	$ 6,612,864
Receivable from one to five years	9,632,582
Receivable in more than five years	670,671
Total contributions receivable	16,916,117
Discount contributions to net present value	(1,047,291)
Allowance for uncollectible contributions	(3,173,765)
Contributions receivable, net	$ 12,695,061

Investments (see UVU Foundation Note 5)

Investments consist of the following at June 30, 2017:

Common and preferred stocks	$ 5,862,976
Mutual funds	16,679,211
Money market accounts	1,329,505
Alternatives	13,719,273
Certificate of deposit	-
Total deposits	$ 37,590,965

The net return on investments is as follows for the year ended June 30, 2017:

Interest and dividend income	$ 651,299
Gains and changes in fair values	4,329,285
Investment costs	(233,574)
Net return on investments	$ 4,747,010

The Foundation's investments have the following maturities at June 30, 2017:

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1 to 5	5 to 10	10 to 20
Mutual funds	$ 16,679,211	$ 16,679,211	$ -	$ -	$ -
Money market accounts	1,329,505	1,329,505	-	-	-
Total investments with a maturity	$18,008,716	$ 18,008,716	$ -	$ -	$ -
Common and preferred stocks	5,862,976				
Alternatives	13,719,273				
	$ 37,590,965				

Credit quality ratings for investments in debt securities are as follows at June 30, 2017:

		Credit Rating			
	Fair Value	AAA to A+	A to A-	B or Lower	Unrated
Mutual funds	$ 16,679,211	$ -	$ -	$ -	$ 16,679,211
Money market accounts	1,329,505	-	-	-	1,329,505
	$ 18,008,716	$ -	$ -	$ -	$ 18,008,716

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

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

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

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

Uniform Prudent Management of Institutional Funds Act - The Board of Directors of the Foundation has interpreted the State of Utah's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies - The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a welldiversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4% to 5%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy - The Foundation has a policy of appropriating for distribution each year 4% to 5% of its endowment fund's moving-average fair value of the prior 3 years through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Fair Value Measurements (see UVU Foundation Note 6)

A description of the valuation methodologies used for assets measured at fair value is as follows:

Common and preferred stocks and U.S. government securities - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds and money market accounts - Valued at the net asset value (NAV) of shares.

Alternatives - Valued at the net asset value (NAV) of units owned as determined by the underlying assets of the investment.

Certificates of deposit - Valued at the original amount deposited at the financial institution plus interest earned on the certificate through the end of the fiscal year.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value at June 30, 2017:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common and preferred stocks	$ 5,862,976	$ 3,732,279	$ 2,130,697	$ -
Mutual funds	16,679,211	16,679,211	-	-
Money market accounts	1,329,505	1,329,505	-	-
Alternatives	13,719,273	-	-	13,719,273
	$ 37,590,965	$ 21,740,995	$ 2,130,697	$ 13,719,273

Investments that trade in inactive markets, but are valued based on quoted market prices are classified as Level 2. Other investments (alternatives) have been classified as Level 3 because they have been valued based on unobservable inputs from third parties.

Alternative investments, managed by external advisors, include investments in partnerships with investments focused on fixed income, natural resources, and various hedging investments. These investments are not readily marketable and are reported at fair value utilizing the most current information provided by the external advisor, subject to assessments that the information is representative of fair value.

Alternative investments generally have limited redemption options for the Foundation. The majority of these investments require 14 to 60 days' notice prior to any amount being redeemed. One investment has no redemption option and may make future capital contribution calls and/or make distributions to the Foundation. This fund's maturity/liquidation is currently unknown as are the amounts of any future capital contributions calls or distributions. The Foundation's total amount held in this investment, at fair value, is $3,455,713 at June 30, 2017. The Foundation was required to make several capital contributions totaling $371,522 during the year ended June 30, 2017.

The following table sets forth a reconciliation of the Foundation's Level 3 assets for the year ended June 30, 2017:

	Alternatives
Beginning balance, July 1, 2016	$ 7,242,151
Gains (losses) for the year:	
Realized	(13,248)
Unrealized	749,570
Purchases	7,848,503
Sales	(2,107,703)
Ending balance, June 30, 2017	$ 13,719,273

<u>Investment in Palos Verde Drive, LLC</u> (see UVU Foundation Note 9)

The Foundation invested $2,000,000 for a 37.037 percent interest in this entity. This investment is increased or decreased with the Foundation's proportionate share of the profits or losses, as well as distributions, using the equity method of accounting. The Foundation recorded a loss of $76,647 related to this investment for the year ended June 30, 2017.

<u>Deferred Annuity Payments</u> (see UVU Foundation Note 10)

The deferred annuity liability totaled $226,629 at June 30, 2017. This liability represents amounts due to five donors in return for contributions received. The liability is the present value of the annuities based on the expected lives of the donors, annual payment to the donors, and stated interest rates. Should the donor's life exceed that expected, the Foundation would be required to continue making payments to the donor until death.

Required Supplementary Information

Schedule of the Proportionate Share of the Net Pension Liability (Asset)

Utah Valley University
Utah Retirement Systems
December 31,
Last 10 Fiscal Years*

	2016	2015	2014
Noncontributory System			
Proportion of the net pension liability (asset)	0.7670871%	0.8118658%	0.7603048%
Proportionate share of the net pension liability (asset)	$ 24,860,655	$ 25,503,030	$ 19,102,876
Covered payroll	19,485,686	20,299,268	19,753,477
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	127.58%	125.64%	96.71%
Plan fiduciary net position as a percentage of the total pension liability	84.90%	84.50%	87.20%
Contributory Retirement System			
Proportion of the net pension liability (asset)	2.6063328%	2.7210978%	2.3745669%
Proportionate share of the net pension liability (asset)	$ 1,428,160	$ 1,705,182	$ 260,368
Covered payroll	698,671	861,981	855,876
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	204.41%	197.82%	30.42%
Plan fiduciary net position as a percentage of the total pension liability	93.40%	92.40%	98.70%
Tier 2 Public Employees System			
Proportion of the net pension liability (asset)	0.7665995%	1.0192718%	0.8523389%
Proportionate share of the net pension liability (asset)	$ 85,514	$ (2,225)	$ (25,830)
Covered payroll	6,286,698	6,584,988	4,183,034
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	1.36%	(0.03%)	(0.62%)
Plan fiduciary net position as a percentage of the total pension liability	95.10%	100.20%	103.50%

* The University implemented GASB Statement 68 in 2015. The 10-year history will be built prospectively.

Schedule of the Contributions to the Utah State Retirement Systems

Utah Valley University
Utah Retirement Systems
June 30, 2017
Last 10 Fiscal Years*

	2017	2016	2015
Noncontributory System			
Contractually required contribution	$ 4,263,696	$ 4,317,851	$ 4,463,325
Contributions in relation to the contractually required contribution	(4,263,696)	(4,317,851)	(4,463,325)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 19,394,236	$ 19,650,773	$ 20,311,773
Contributions as a percentage of covered-employee payroll	21.98%	21.97%	21.97%
Contributory Retirement System			
Contractually required contribution	$ 99,355	$ 141,988	$ 156,906
Contributions in relation to the contractually required contribution	(99,355)	(141,988)	(156,906)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 561,329	$ 802,191	$ 886,472
Contributions as a percentage of covered-employee payroll	17.70%	17.70%	17.70%
Tier 2 Public Employees System			
Contractually required contribution	$ 1,074,235	$ 1,255,126	$ 999,809
Contributions in relation to the contractually required contribution	(1,074,235)	(1,255,126)	(999,809)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 5,889,438	$ 6,877,886	$ 5,470,804
	18.24%	18.25%	18.28%

* The University implemented GASB Statement 68 in 2015. The 10-year history will be built prospectively.

UTAH VALLEY
UVU
UNIVERSITY™

A COMPONENT UNIT OF THE STATE OF UTAH

2017 ANNUAL FINANCIAL REPORT