2006 Annual Financial Report

Utah Valley State College

A Component Unit of the State of Utah

Utah Valley
State College

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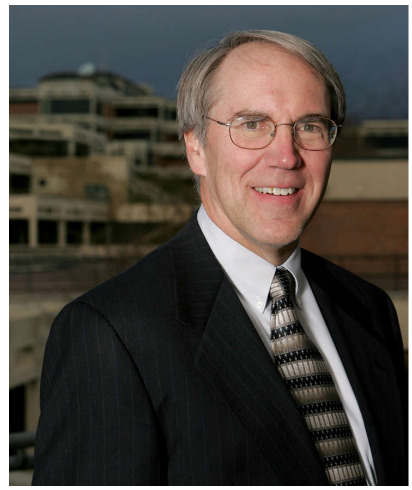
Utah Valley State College

President's Message



UVSC continues to be a fiscally stable institution. I am impressed with the dedication and skill level of our employees, who manage institutional resources in an appropriate and professional manner bringing to pass the mission of Utah Valley State College.

Significant highlights for this past year worth noting in this report are: 1) the 2006 state legislature's appropriation to UVSC for a $48 million, 180,000 square-foot Digital Learning Center (Library); 2) the reaffirmation of UVSC from the Northwest Commission on Colleges and Universities as a comprehensive four-year institution and its commendation for being a student centered institution; 3) the U.S. Department of Education recently informed a college grant writing team that UVSC has been awarded the prestigious $2 million dollar Title III Grant. This grant will help develop a solid infrastructure to leverage our students for success and improve retention; 4) the international recognition of UVSC's PBA (Planning, Budgeting and Accountability) process as an effective mode of reallocating and appropriating resources to maximize desired returns in fulfilling the institutional mission.

The future for Utah Valley State is bright. Key initiatives are in progress to enhance the level and recognition of the services UVSC offers its constituents. For example, Utah Valley State is collaboratively working with the Utah System of Higher Education (USHE) to expand its breadth of service as a regional state university. This initiative, plus many more, are all focused on furthering the educational mission of Utah Valley State to better meet the demands of its students and community.

Utah Valley State is making a positive difference in the lives of those it serves. It is an exciting time at Utah Valley State—where success is a state of mind. Thank you for your support.

Sincerely,

William A. Sederburg

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Auston G. Johnson, CPA
UTAH STATE AUDITOR

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Deborah A. Empey, CPA
Stan Godfrey, CPA
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INDEPENDENT STATE AUDITOR'S REPORT

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

We have audited the statement of net assets; statement of revenues, expenses, and changes in net assets; and statement of cash flows of Utah Valley State College (the College), and, based on the report of other auditors, its discretely presented component unit foundation, which collectively comprise the College's basic financial statements, as of and for the year ended June 30, 2006. The College is a component unit of the State of Utah. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit foundation. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit foundation, is based on the report of the other auditors. The prior year summarized comparative information has been derived from the College's 2005 financial statements and, in our report dated September 30, 2005, we expressed an unqualified opinion on the basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Utah

Valley State College and of its discretely presented component unit foundation as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Auston G. Johnson, CPA
Utah State Auditor
September 22, 2006

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 State College (the College) for the year ended June 30, 2006, with comparative information for the year ended June 30, 2005. 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 State College Foundation (the Foundation) is a separate but affiliated non-profit corporation. The accounts of the Foundation are audited separately and reported in the Component Unit column of the financial statements. The audited financial statements for the Foundation are available through the College's Institutional Advancement Office.

Overview of the Financial Statements and Financial Analysis

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

Statement of Net Assets

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

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

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

Statement of Net Assets, Condensed

	2006	2005	Change	% Change
ASSETS				
Current assets	$ 42,523,502	$ 38,811,509	$ 3,711,993	9.6%
Noncurrent Notes receivable, net	1,611,066	1,790,549	(179,483)	(10.0%)
Capital Assets, net	152,373,991	151,226,401	1,147,590	0.8%
Other Noncurrent Assets	66,011	1,406,343	(1,340,332)	(95.3%)
Total Assets	196,574,570	193,234,802	3,339,768	1.7%
LIABILITIES				
Current Liabilities	9,796,487	11,620,699	(1,824,212)	(15.7%)
Noncurrent Liabilities	28,282,224	28,046,322	235,902	0.8%
Total Liabilities	38,078,711	39,667,021	(1,588,310)	(4.0%)
NET ASSETS				
Invested in capital assets, net of debt	124,685,253	122,213,857	2,471,396	2.0%
Restricted Expendable	9,089,881	8,310,440	779,441	9.4%
Restricted Nonexpendable	-	100,500	(100,500)	(100.0%)
Unrestricted	24,720,725	22,942,984	1,777,741	7.7%
Total Net Assets	$ 158,495,859	$ 153,567,781	$ 4,928,078	3.2%

Total assets of the College increased $3.3 million during the fiscal year. Current assets increased by $3.7 million. The increase was due to an increase in student accounts receivable of $2.2 million for the year due to a change in the timing of the write-off of uncollectible amounts as well as an increase in cash and investments of $1.3 million as expenses were held below revenues for the year. Capital assets increased by $1.1 million through $1.4 million in expenditures for equipment and library books, $5.0 million in building and infrastructure expenditures and an offset of $5.3 million in depreciation charges. Other assets decreased by $1.3 million reflecting a use of funds held on deposit with a state agency and spent on infrastructure during the year.

Total liabilities decreased overall by $1.6 million for the year. Current liabilities decreased by $1.8 million due mainly to a $1.6 million change in accrued liabilities due to a change in the allocation of vacation liability between current and noncurrent. Noncurrent liabilities increased by $235 thousand as accrued liabilities increased $1.5 million due to the change in allocation noted above. The repayment of bonds, notes, and capital leases accounted for a $2.1 million decreased offset by a new $784 thousand capital lease signed during the year to purchase equipment.

Overall the net assets of the College increased by $4.9 million as a result of the $3.3 million increase in total assets and the $1.6 million decrease in total liabilities. The facilities and grounds of the College are well maintained, employee moral is good with positive financial numbers are all indicators of the overall general health of the College.

Statement of Revenues, Expenses, and Changes in Net Assets

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

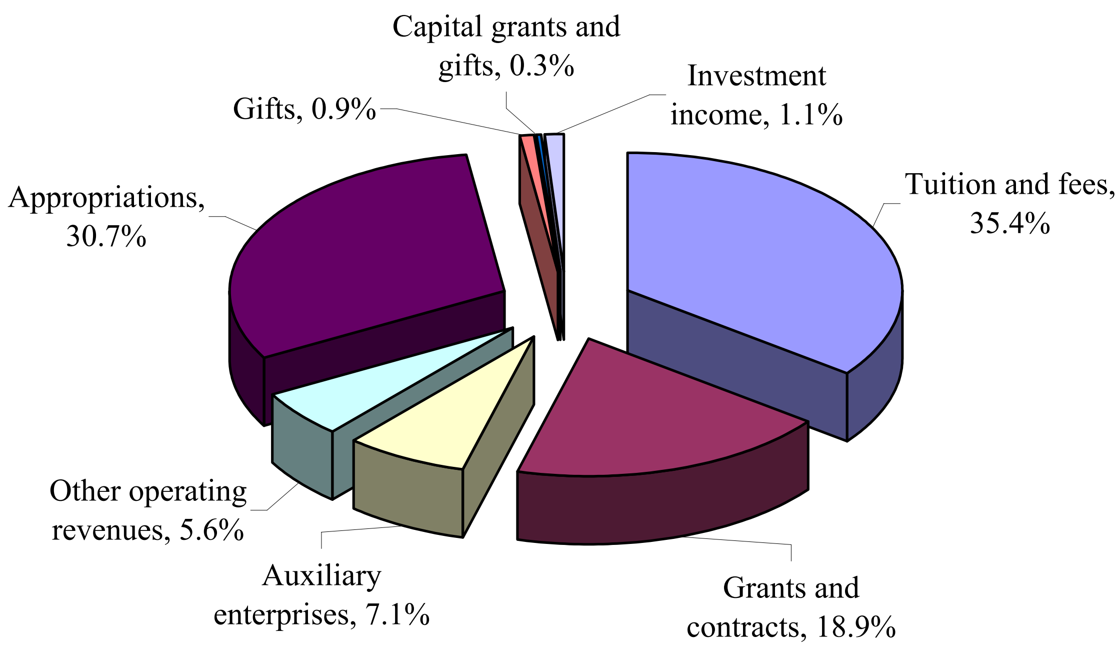
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for operating revenues and to carry out the mission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

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

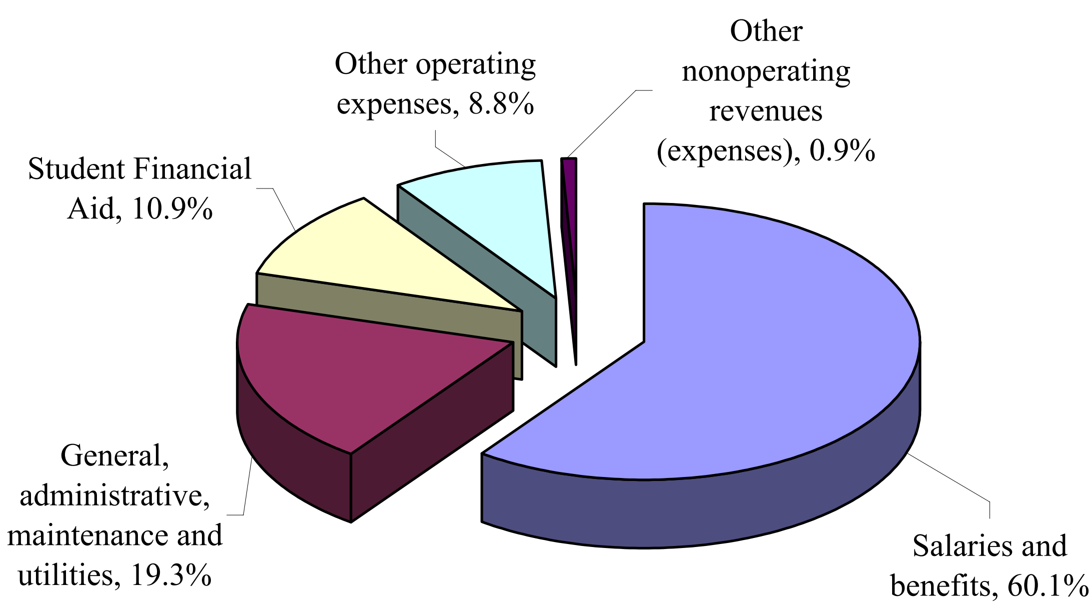
	2006	2005	Change	% Change
REVENUES				
Operating revenues				
Student tuition and fees	$ 59,893,129	$ 58,569,293	$ 1,323,836	2.3%
Grants and contracts	32,111,029	31,206,184	904,845	2.9%
Auxiliary enterprises	12,049,398	11,132,289	917,109	8.2%
Other	9,526,448	8,600,081	926,367	10.8%
Total operating revenues	113,580,004	109,507,847	4,072,157	3.7%
EXPENSES				
Operating expenses				
Salaries and benefits	98,884,516	91,588,365	7,296,151	8.0%
Student financial aid	17,994,924	17,224,787	770,137	4.5%
General and administrative, maintenance and utilities	31,699,592	29,637,897	2,061,695	7.0%
Other	14,482,731	13,938,201	544,530	3.9%
Total operating expenses	163,061,763	152,389,250	10,672,513	7.0%
Operating loss	(49,481,759)	(42,881,403)	(6,600,356)	(15.4%)
NONOPERATING REVENEUES (EXPENSES)				
State appropriations	49,201,546	43,741,286	5,460,260	12.5%
Gifts	1,551,476	1,864,541	(313,065)	(16.8%)
Investment income	1,862,063	1,114,260	747,803	67.1%
Other nonoperating revenues (expenses)	(1,472,133)	(1,217,493)	(254,640)	(20.9%)
Net nonoperating revenues	51,142,952	45,502,594	5,640,358	12.4%
Income before other revenues	1,661,193	2,621,191	(959,998)	(36.6%)
Capital appropriations	2,744,915	586,617	2,158,298	367.9%
Capital grants and gifts	521,970	206,207	315,763	153.1%
Other revenues	3,266,885	792,824	2,474,061	312.1%
Increase in net assets	4,928,078	3,414,015	1,514,063	44.3%
Net assets – beginning	153,567,781	150,153,766	3,414,015	2.3%
Net assets - ending	$ 158,495,859	$ 153,567,781	$ 4,928,078	3.2%

The following graphs illustrate operating and nonoperating revenues and expenses for the year ended June 30, 2006.

Operating and nonoperating revenues



Operating and nonoperating expenses



The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year. Operating revenues increased approximately $4.1 million. An increase in tuition rates of approximately 8.75% and a 6.3% decline in enrollment accounted for $1.3 million of the change. Grants and contracts increased by $905 thousand due to an increase in state grants received, auxiliary enterprise activity increased by $917 thousand as textbook sales and computer sales accounted for much of the increase, and other operating revenues increased by $926 thousand as aviation training revenue increased.

Operating expenses increased by approximately $10.7 million, the majority of the increase was due to increases in salary and benefit expenses, as well as an increase in general and administrative costs. Salaries increased by $4.6 million or 6.9% attributable to raises and new faculty and staff positions and benefits increased $2.7 million or 10.8% due to the increase in salaries and increases in health care costs. Administrative increases of $2.1 million were due in part to an increase in computer and supplies purchased, and an increase in professional services and instructional services.

Nonoperating and other revenues (expenses) saw an increase in revenues of $8.4 million. State appropriations increased by 5.5 million with increased funding from the State Legislature, investment income increased by $748 thousand as the interest rate earned increased throughout the year, and capital appropriations increased by $2.2 million in relation to the funding received for the remodel of the Vineyard School.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into five sections. The first section deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section shows the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section 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 Assets.

Statement of Cash Flows, Condensed

	2006	2005	Change	% Change
Cash provided (used) by:				
Operating activities	$ (45,923,910)	$ (36,683,721)	$ 9,240,189	25.2%
Noncapital financing activities	50,078,714	44,849,724	5,228,990	11.7%
Capital and related financing activities	(6,309,824)	(4,224,605)	(2,085,219)	49.4%
Investing activities	1,862,357	1,155,500	706,857	61.2%
Change in cash	(292,663)	5,096,898	(5,389,561)	(105.7%)
Cash - Beginning of Year	31,951,955	26,855,057	5,096,898	19.0%
Cash – End of Year	$ 31,659,292	$ 31,951,955	($ 292,663)	(0.9%)

Economic Outlook

The College's overall financial position is strong. The economy of the State of Utah continues to grow which improves the likelihood of increased support for higher education. The Legislature approved $46.8 million in capital support towards the construction of a new Digital Learning Center with an expected completion date during the spring of 2009.

The College anticipates steady enrollment with no significant changes in overall operating expenses.

Financial Statements

Utah Valley State College
Statement of Net Assets
As of June 30

	Primary Institution UVSC 2006	Component Unit UVSC Foundation 2006	Total 2006	Comparative Total 2005
ASSETS				
Current assets				
Cash and cash equivalents (note 2)	$ 31,659,292	$ 939,450	$ 32,598,742	$ 30,861,497
Short term investments (note 2)	1,106,474	-	1,106,474	805,418
Accounts receivable, net (note 3)	6,749,722	-	6,749,722	4,548,702
Notes and pledges receivable, net (note 3 and 6)	314,860	239,233	554,093	342,043
Prepaid expenses, deferred charges	947,139	15,813	962,952	1,018,955
Inventories (note 5)	1,746,015	-	1,746,015	1,470,662
Total current assets	42,523,502	1,194,496	43,717,998	39,047,277
Noncurrent assets				
Cash on deposit with State agencies	-	-	-	1,311,153
Restricted investments (note 2)	66,011	15,231,040	15,297,051	14,174,590
Notes and pledges receivable, net (note 3 and 6)	1,611,066	101,315	1,712,381	2,357,011
Other long term assets	-	6,362,776	6,362,776	5,883,784
Non depreciable capital assets (note 8)	11,109,057	4,653,600	15,762,657	22,948,296
Depreciable capital assets, net (note 8)	141,264,934	4,666,833	145,931,767	137,555,146
Total noncurrent assets	154,051,068	31,015,564	185,066,632	184,229,980
Total assets	**196,574,570**	**32,210,060**	**228,784,630**	**223,277,257**
LIABILITIES				
Current liabilities				
Accounts payable (note 4)	1,671,494	-	1,671,494	1,917,351
Accrued liabilities (note 4)	2,532,961	692,035	3,224,996	4,884,016
Other liabilities	805,237	-	805,237	761,453
Deferred revenue (note 7)	2,352,699	502,183	2,854,882	2,862,165
Current portion of bonds, notes, and capital leases	2,028,284	144,376	2,172,660	2,224,665
Funds held for others	405,812	-	405,812	415,145
Total current liabilities	9,796,487	1,338,594	11,135,081	13,064,795
Noncurrent liabilities (note 13)				
Accrued liabilities (note 4)	2,621,770	-	2,621,770	1,123,758
Bonds, notes, and capital leases (notes 9 and 11)	25,660,454	1,360,111	27,020,565	28,427,051
Total noncurrent liabilities	28,282,224	1,360,111	29,642,335	29,550,809
Total liabilities	**38,078,711**	**2,698,705**	**40,777,416**	**42,615,604**
NET ASSETS				
Invested in capital assets, net of related debt	124,685,253	7,815,946	132,501,199	129,851,726
Restricted for:				
Nonexpendable				
Scholarships	-	9,165,381	9,165,381	7,848,824
Expendable		-		
Scholarships and grants	3,820,031	12,243,019	16,063,050	12,715,969
U. S. government grants, refundable	1,744,909	-	1,744,909	1,744,909
Loans	1,067,361	-	1,067,361	1,019,859
Capital projects	1,928,671	-	1,928,671	3,595,448
Debt service	528,909	-	528,909	568,835
Unrestricted	24,720,725	287,009	25,007,734	23,316,083
Total net assets	**$ 158,495,859**	**$ 29,511,355**	**$ 188,007,214**	**$ 180,661,653**

The accompanying notes are an integral part of the Financial Statements

Utah Valley State College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30

	Primary Institution UVSC 2006	Component Unit UVSC Foundation 2006	Total 2006	Comparative Total 2005
REVENUES				
Operating revenues				
Student tuition and fees (net of allowances of $5,531,372)	$ 59,893,129	$ -	$ 59,893,129	$ 58,569,293
Federal grants and contracts	26,309,267	-	26,309,267	26,212,588
State grants and contracts	5,766,355	-	5,766,355	4,904,881
Private grants and contracts	35,407	-	35,407	88,715
Sales and service of education departments	5,771,258	-	5,771,258	5,021,172
Auxiliary enterprises (net of scholarship allowances of $731,049)	12,049,398	-	12,049,398	11,132,289
Other operating revenues	3,755,190	-	3,755,190	3,578,909
Total operating revenues	**113,580,004**	**-**	**113,580,004**	**109,507,847**
EXPENSES				
Operating expenses				
Salaries	70,865,571	-	70,865,571	66,297,613
Fringe benefits	28,018,945	-	28,018,945	25,290,752
Student financial aid	17,994,924	463,016	18,457,940	17,767,727
Maintenance and utilities	6,558,508	-	6,558,508	6,481,531
General and administrative	25,141,084	2,312,757	27,453,841	25,584,771
Cost of goods sold - auxiliary enterprises	7,999,185	-	7,999,185	7,826,133
Depreciation	6,483,546	-	6,483,546	6,112,068
Total operating expenses	163,061,763	2,775,773	165,837,536	155,360,595
Operating loss	**(49,481,759)**	**(2,775,773)**	**(52,257,532)**	**(45,852,748)**
NONOPERATING REVENUES (EXPENSES)				
State appropriations	49,201,546	-	49,201,546	43,741,286
Gifts	1,551,476	2,875,415	4,426,891	4,585,062
Investment income (net of Foundation investment expense of $119,573)	1,862,063	1,327,648	3,189,711	2,100,624
Interest on capital asset-related debt	(1,254,782)	-	(1,254,782)	(960,902)
Other nonoperating revenues (expenses)	(217,351)	227,115	9,764	(31,513)
Net nonoperating revenues	51,142,952	4,430,178	55,573,130	49,434,557
Income before other revenues, expenses, gains, or losses	**1,661,193**	**1,654,405**	**3,315,598**	**3,581,809**
Capital appropriations	2,744,915	-	2,744,915	586,617
Gifts to endowments	-	763,078	763,078	599,560
Capital grants and gifts	521,970	-	521,970	206,207
Total other revenues	3,266,885	763,078	4,029,963	1,392,384
Increase in net assets	**4,928,078**	**2,417,483**	**7,345,561**	**4,974,193**
NET ASSETS				
Net assets--beginning of year	153,567,781	27,093,872	180,661,653	179,914,304
Prior period adjustment of net assets	-	-	-	(4,226,844)
Net assets--beginning of year re-stated	153,567,781	27,093,872	180,661,653	175,687,460
Net assets--end of year	**$ 158,495,859**	**$ 29,511,355**	**$ 188,007,214**	**$ 180,661,653**

The accompanying notes are an integral part of the Financial Statements

Utah Valley State College
Statement of Cash Flows
For the Year Ended June 30, 2006

		Primary Institution UVSC
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees	$	59,668,088
Receipts from grants and contracts		30,364,654
Receipts from auxiliary and educationsl sales and services		18,064,331
Collection of loans to students		351,511
Payments to suppliers		(40,909,310)
Payments for employee services and benefits		(99,066,211)
Payments for student aid: scholarships and fellowships		(17,995,224)
Loans issued to students		(148,449)
Other operating payments		(91,859)
Other operating receipts		3,838,559
Net cash used by operating activities		**(45,923,910)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		48,487,547
Gifts		1,591,167
Net cash provided by noncapital financing activities		**50,078,714**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received		34,580
Purchases of capital assets		(3,839,799)
Principal paid on capital debt and leases		(2,203,092)
Interest paid on capital debt and leases		(1,085,042)
Proceeds from capital debt issued		783,529
Net cash used by capital and related financing activities		**(6,309,824)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		817,387
Receipt of interest on investments		1,862,527
Purchase of investments		(817,557)
Net cash provided by investing activities		**1,862,357**
Net decrease in cash		**(292,663)**
Cash - beginning of year		**31,951,955**
Cash - end of year	**$**	**31,659,292**
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITY		
Operating income (loss)	**$**	**(49,481,759)**
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense		6,483,546
Agency funds transactions		(243,933)
Changes in assets and liabilities		
Receivables, net		(1,994,352)
Inventories		(275,353)
Prepaid expenses, deferred charges		56,743
Accounts payable		(450,154)
Accrued liabilities		(112,774)
Deferred revenue		59,676
Funds held for others		(9,333)
Other liabilities		43,783
Net Cash Used by Operating Activities	**$**	**(45,923,910)**
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated library books	$	110,387
Donated assets		10,000
Assets contributed by DFCM		10,852,229
Total Noncash Activities	**$**	**10,972,616**

The accompanying notes are an integral part of the Financial Statements

Notes to the Financial Statements

Utah Valley State College
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 1 Summary of Significant Accounting Policies

Nature of Operations

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

Reporting Entity

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

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

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

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

Note 1 Summary of Significant Accounting Policies (continued)

Prior-year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2005, from which the summarized information was derived. Some modifications were made in order to be comparable to the current fiscal year.

Basis of Accounting

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

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

Cash Equivalents

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

Note 1 Summary of Significant Accounting Policies (continued)

Investments

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

Accounts Receivable

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

Inventories

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

Noncurrent Cash and Investments

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

Capital Assets

Capital assets are recorded at cost on the date of acquisition or fair market value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Buildings, building additions, and building improvements that extend the useful life

Note 1 Summary of Significant Accounting Policies (continued)

Capital Assets (Continued)

of the asset or infrastructure, and land improvements are capitalized if the cost is over $50,000. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 40 years for buildings, 30 years for infrastructure and aircraft (less than 15 years old when acquired), 20 years for 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.

Noncurrent Liabilities

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

Deferred Revenues

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

Bond Discounts/Premiums/Issuance Costs/Deferred Amount on Refunding

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

Compensated Absences

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

Note 1 Summary of Significant Accounting Policies (continued)

Classification of Revenues

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

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

Nonoperating Revenues
Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating cash flows by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments,* such as state appropriations and investment income.

Expenses

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

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

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

Note 1 Summary of Significant Accounting Policies (continued)

Restricted net assets – nonexpendable
Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to the principal.

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

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

Note 2 Deposits and Investments

The College

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted under the authority of the State of Utah Money Management Act (the Act) that relate to the deposit and investment of public funds.

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

Note 2 Deposits and Investments (continued)

As of July 1, 2005 for endowment funds, the College follows the requirements of the Uniform Management of Institutional Funds Act (UMIFA) and State Board of Regents Rule 541, Management and Reporting of Institutional Investments (Rule 541).

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

These statutes authorize the College to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The UMIFA and Rule 541 allow the College 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: professionally managed pooled or commingled investment funds registered with the Securities and Exchange Commission or the Comptroller of the Currency (e.g., mutual funds); professionally managed pooled or commingled investment funds created under 501(f) of the Internal Revenue Code which satisfy the conditions for exemption from registration under Section 3(c) of the Investment Company Act of 1940; any investment made in accordance with the donor's directions in a written instrument; and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, and private real estate assets or absolute return and long/short hedge funds.

Note 2 Deposits and Investments (continued)

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

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

Deposits

At June 30, 2006, the carrying amounts of the College's deposits and bank balances were $1,082,832 and $2,170,499, respectively. The bank balances of the College were insured for $200,000, by the Federal Deposit Insurance Corporation. The bank balances in excess of $200,000 were uninsured and uncollateralized, leaving $1,970,499 exposed to custodial credit risk. All deposits were held by a qualified depository as defined by the State Money Management Act. The State of Utah does not require collateral on deposits.

Custodial Credit Risk

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

Note 2 Deposits and Investments (continued)

Investments

As of June 30, 2006, the College had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (In Years) Less than One
State of Utah Public Treasurer's Investment Fund	$ 30,395,525	$ 30,395,525
Repurchase Agreements comprised of Investments in U.S. Agencies	1,215,583	1,215,583
Money Market Mutual Fund comprised of Government Securities	66,011	66,011
Totals	$ 31,677,119	$ 31,677,119

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act or the UMIFA 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 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 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.

Note 2 Deposits and Investments (continued)

Credit Risk

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

At June 30, 2006, the College had investments and quality ratings as follows.

		Quality Rating	
Investment Type	Fair Value	AAA	Unrated
State of Utah Public Treasurer's Investment Fund	$ 30,395,525	$ -	$ 30,395,525
Repurchase Agreements comprised of Investments in U.S. Agencies	1,215,583	1,215,583	-
Money Market Mutual Fund comprised of Government Securities	66,011	66,011	-
Totals	$ 31,677,119	$ 1,281,594	$ 30,395,525

The College's investments in repurchase agreements were comprised of government securities held by Wells Fargo. The College's investments in the money market mutual funds were comprised of government securities. The fund was rated by Standard & Poor's.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The College's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council or the UMIFA 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 5-10% depending upon the total dollar amount held in the portfolio. For endowment funds, Rule 541 requires that a minimum of 25% of the equity portfolio must be invested in companies with an average market capitalization of at least $10 billion; also a minimum of 25% of the overall

Note 2 Deposits and Investments (continued)

endowment portfolio should be invested in investment grade fixed income securities as defined by Moody's Investors Service or Standard and Poor's. The overall endowment portfolio cannot consist of more than 75% equity investments. Rule 541 also limits investments to no more than 3% in any one sector fund that is concentrated within one sector of the U.S. market and no more than 5% in equity or fixed income funds of developing markets. It also limits investments in alternative investment funds, as allowed by Rule 541, to between 0% and 30% based on the size of the College's endowment fund.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. As of June 30, 2006, the College had $1,215,583 in repurchase agreements comprised of government securities which were held by the counterparty's trust department or agent but not in the government's name.

The Foundation

Deposits – The Foundation

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

Custodial Credit Risk – The Foundation

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

Note 2 Deposits and Investments (continued)

Investments – The Foundation

As of June 30, 2006, the Foundation had the following investments and maturities:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than One	One to Five	Five to Ten	Ten to Twenty
Money Market Accounts	$ 911,578	$ 911,578	$ -	$ -	$ -
Certificates of Deposit	624,842	116,513	508,329	-	-
US Government Securities	1,897,066	129,026	949,327	620,561	198,152
Corporate Bonds	713,996	26,694	660,874	26,428	-
Mutual Funds	783,739	-	590,844	192,895	-
Total	4,931,221	$ 1,183,811	$ 2,709,374	$ 839,884	$ 198,152
Common and Preferred Stocks	10,299,819				
Total	$ 15,231,040				

Interest Rate Risk – The Foundation

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

Credit Risk – The Foundation

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

Note 2 Deposits and Investments (continued)

At June 30, 2006, the Foundation had the following investments and quality ratings:

		Quality Rating			
Investment Type	Fair Value	AAA to A+	A	B	Unrated
Common and Preferred Stocks	$ 10,299,819	$ -	$ -	$ -	$ 10,299,819
Money Market Accounts	911,578	-	-	-	911,578
Certificates of Deposit	624,842	-	-	-	624,842
US Government Securities	1,897,066	-	-	-	1,897,066
Corporate Bonds	713,996	109,382	-	-	604,614
Mutual Funds	783,739	-	6,062	1,617	776,060
	$ 15,231,040	$ 109,382	$ 6,062	$ 1,617	$ 15,113,979

Custodial Credit Risk - Foundation

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

Concentration of Credit Risk - Foundation

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

Utah Valley State College
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 3 Accounts and Notes Receivable

College accounts receivable consisted of the following at June 30, 2006:

Student tuition and fees	$ 2,800,944
Operating activities	883,850
Auxiliary enterprises	437,093
State grants and contracts	1,193,992
Federal grants and contracts	2,211,183
Other grants and contracts	25
	7,527,087
Less allowance for doubtful accounts	(777,365)
Net accounts receivable	$ 6,749,722

College notes receivable consisted of the following at June 30, 2006:

Loans to students	$ 2,069,180
Less allowance for doubtful accounts	(143,254)
Net notes receivable	1,925,926
Less noncurrent portion	(1,611,066)
Current portion	$ 314,860

Note 4 Accounts Payable and Accrued Liabilities

College accounts payable consisted of the following at June 30, 2006:

State taxes payable	$ 22,718
Interest payable	193,496
Vendors payable	1,009,224
DFCM payable	182,497
State and Federal Grants	96,584
Employee deposits payable	166,975
Total Accounts Payable	$ 1,671,494

Note 4 Accounts Payable and Accrued Liabilities (continued)

College accrued liabilities consisted of the following at June 30, 2006:

Federal taxes payable	$ 62,467
State taxes payable	274,061
Wages payable	287,464
Accrued retirement payable	1,085,647
Accrued leave payable	2,946,191
Payroll liabilities	498,901
Total Accrued Liabilities	5,154,731
Less noncurrent portion	(2,621,770)
Current portion	$ 2,532,961

Note 5 Inventories

Inventories at June 30, 2006 were as follows:

Auxiliary enterprises	$ 1,415,531
Supplies and other inventory	330,484
Total	$ 1,746,015

Note 6 Loans Receivable

Student loans made through the Federal Perkins Loan Program comprise substantially all of the notes receivable at June 30, 2006. Under this perpetual loan program, the Federal Government provides approximately 75% of the initial funds contributed to the program which in turn are issued as loans to students. The College provides a matching contribution to the fund of 25%. Under certain conditions, loans can be forgiven at annual rates of 10% to 30% of the balance up to maximums of 50% to 100% of the balance of the loan. The Federal Government reimburses the College a portion of amounts cancelled under these provisions.

As the College 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 College has provided an allowance for uncollectible loans which in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2006, the allowance for uncollectible loans was $143,254.

Note 7 Deferred Revenue

Deferred revenue of the College consisted of the following at June 30, 2006:

Prepaid tuition and fees	$ 2,293,146
Grants and contracts	59,553
Total deferred revenue	$ 2,352,699

Note 8 Capital Assets

The following are the changes in capital assets of the College for the year ended June 30, 2006:

	Beginning Book Value	Increases	Decreases	Ending Book Value
Capital Assets not Being Depreciated				
Land	$ 7,563,666	$ -	$ -	$ 7,563,666
Land improvements - nondepreciable	3,101,555	-	-	3,101,555
Works of art and historical treasures	87,250	10,000	-	97,250
Construction in process	7,717,225	2,155,783	(9,526,422)	346,586
Total Nondepreciable	**18,469,696**	**2,165,783**	**(9,526,422)**	**11,109,057**
Capital Assets Being Depreciated				
Land improvements - depreciable	2,713,628	-	-	2,713,628
Infrastructure	4,992,597	10,187,611	-	15,180,208
Buildings	152,536,920	2,181,870	-	154,718,790
Equipment	20,233,719	2,242,546	(1,103,119)	21,373,146
Library books	3,890,788	393,320	(92,240)	4,191,868
Total Depreciable	**184,367,652**	**15,005,347**	**(1,195,359)**	**198,177,640**
Less Accumulated Depreciation				
Land improvements - depreciable	1,521,101	238,840	-	1,759,941
Infrastructure	1,316,715	336,028	-	1,652,743
Buildings	33,181,160	3,840,621	-	37,021,781
Equipment	14,182,147	1,865,942	(1,090,171)	14,957,918
Library Books	1,409,824	202,115	(91,616)	1,520,323
Total Accumulated Depreciation	**51,610,947**	**6,483,546**	**(1,181,787)**	**56,912,706**
Capital Assets Being Depreciated, Net	**132,756,705**	**8,521,801**	**(13,572)**	**141,264,934**
Total Capital Assets, Net	**$ 151,226,401**	**$ 10,687,584**	**$(9,539,994)**	**$ 152,373,991**

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

	2006	2005
Rental Income Property	$ 4,666,833	$ 4,798,441
Land	4,653,600	4,478,600
Total Capital Assets	$ 9,320,433	$ 9,277,041

Note 9 Bonds Payable

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

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

The State Board of Regents of the State of Utah issued Student Center Building Fee and Unified System Revenue Refunding Bonds, Series 2004A, in the amount of $11,020,000, and Student Center Building Fee and Unified System Revenue Refunding Bonds, (Federally Taxable) Series 2004B, in the amount of $4,035,000 for and on behalf of the College on August 3, 2004. The SBR 2004A&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 College believes it is currently in compliance with all bond covenants.

Utah Valley State College
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 9 Bonds Payable (continued)

The bonds payable at June 30, 2006 consist of the following:

Description	Original Issue	Balance June 30, 2006	Due Within One Year
MBA 2004A Lease Revenue Bonds (Federally Taxable), due in annual installments through 2019, interest rates 4.5% to 6.0%	$ 3,900,000	$ 3,725,000	$ 185,000
Less Discount	(16,666)	(14,583)	(1,042)
Total Net MBA 2004A	3,883,334	3,710,417	183,958
MBA 2004B Lease Revenue Refunding Bonds, due in annual installments through 2014, interest rates 3.0% to 4.2%	2,600,000	2,175,000	210,000
Plus Premium	37,378	30,582	3,398
Less Deferred Amount on Refunding	(286,406)	(232,850)	(27,942)
Total Net MBA 2004B	2,350,972	1,972,732	185,456
SBR 2004A Student Center Building Fee and Unified System Revenue Refunding Bonds, due in annual installments through 2020, interest rates 3.0% to 4.5%	11,020,000	9,430,000	780,000
Plus Premium	105,719	93,282	6,219
Less Deferred Amount of Refunding	(1,097,895)	(968,400)	(67,563)
Total Net SBR 2004A	10,027,824	8,554,882	718,656

Note 9 Bonds Payable (continued)

Description	Original Issue	Balance June 30, 2006	Due Within One Year
SBR 2004B Student Center Building Fee and Unified System Revenue Refunding Bonds (Federally Taxable), due in annual installments through 2011, interest rate 5.0%	4,035,000	2,855,000	615,000
Plus Premium	119,799	89,849	14,975
Less Deferred Amount of Refunding	(172,564)	(126,944)	(23,801)
Total Net SBR 2004B	3,982,235	2,817,905	606,174
Total Net Bonds	$ 20,244,365	$ 17,055,936	$ 1,694,244

Principal and interest on the SBR 2004A&B Bonds and the MBA 2004A&B Bonds are secured by Pledged Revenues which consist of all (i) net operating revenues of the Bookstore, the Student Center, and all College Food Services; (ii) Student Center Building Fees; (iii) investment income; and (iv) HUD subsidy grant. The following is a summary of the pledged revenues for fiscal year 2006 and the bond payments due in fiscal year 2006 and 2007:

Pledged Revenues	**2006**
Building Fee – Spring	$ 965,350
Building Fee – Summer	281,790
Building Fee – Fall	1,024,305
Total Building Fees	2,271,445
HUD Subsidy	34,580
Net Auxiliary Profits	527,466
Investment Income	6,336
Total Pledged Revenues	2,839,827

Principal and Interest Payments due in:	**2007**	**2006**
SBR 2004A&B Bonds	1,858,018	1,850,918
MBA 2004A&B Bonds	672,302	671,628
Total Principal and Interest Payments	2,530,320	2,522,546
Pledged Revenues in Excess of Payments	$ 309,507	$ 317,281

Note 9 Bonds Payable (continued)

In addition, the SBR 2004A&B Bonds and the MBA 2004A&B Bonds are insured by a financial guaranty insurance policy issued by XL Capital Assurance Inc. The SBR 2004A&B Bonds and the MBA 2004A&B Bonds Debt Service Reserve Requirements have been met by the purchase of a Reserve Instrument from XL Capital Assurance Inc.

The scheduled maturities of bonds payable at June 30, 2006, are as follows:

Year	Principal	Interest	Total
2007	$ 1,790,000	$ 740,320	$ 2,530,320
2008	1,850,000	670,320	2,520,320
2009	1,930,000	596,365	2,526,365
2010	2,005,000	520,307	2,525,307
2011	2,080,000	441,475	2,521,475
2012-2016	5,295,000	1,289,823	6,584,823
2017-2021	3,235,000	382,911	3,617,911
Total	$ 18,185,000	$ 4,641,521	$ 22,826,521

In prior years, the College defeased the 1995A Revenue Cross-Over Refunding Bonds, the 1999 Lease Revenue Bonds, and the 2000 Student Center Building Fee and Unified System Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the College's financial statements. At June 30, 2006, $11,125,000 of bonds outstanding are considered defeased.

Note 10 Operating Leases

The College leases buildings, office space, airport facilities, and land under non-cancelable operating leases. Total costs for such leases were $518,413 for the year ended June 30, 2006. 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
2007	$ 454,380
2008	444,185
2009	444,185
2010	403,173
2011	322,759
2012-2016	801,017
2017-2021	206,497
2022-2026	188,881
2027-2030	68,015
Total Future Minimum Lease Payments	$ 3,333,092

Note 11 Capital Lease Obligations

The College has acquired certain equipment under various lease-purchase contracts or other capital lease agreements. The cost of College assets held under capital leases totaled $13,136,971 as of June 30, 2006. Accumulated depreciation of leased equipment totaled $806,536 at June 30, 2006.

The assets acquired through capital leases are as follows:

Asset:	
Aircraft	$ 2,957,745
Less: Accumulated Depreciation	(637,347)
ESCO Energy Savings Projects	10,179,226
Less: Accumulated Depreciation	(169,189)
Total Net Capital Lease Assets	$ 12,330,435

Note 11 Capital Lease Obligations (continued)

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, 2006.

Fiscal Year Ending June 30	Capital Leases
2007	$ 824,615
2008	846,356
2009	864,845
2010	883,956
2011	947,183
2012-2016	4,658,148
2017-2021	4,316,593
2022-2024	2,408,198
Total Future Minimum Lease Payments	15,749,894
Amounts Representing Interest	(5,117,092)
Present Value of Net Minimum Lease Payments	$ 10,632,802

Note 12 Early Retirement Liability

The College provides an early retirement option to qualified employees who are approved by the administration in accordance with College policy as approved by the State Board of Regents. Employees who retire from the College 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 semi-monthly stipend equal to 20 percent of the retiree's salary at the time of active employment along with medical and dental insurance. During the fiscal year ended June 30, 2006, 26 employees participated in the early retirement plan, of which 24 retirees received medical and dental insurance benefits and 24 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 based on historical data. The amount recognized on the financial statements was calculated at the discounted

Note 12 Early Retirement Liability (continued)

present value of the projected future costs. The discount rate used was based on the estimated yield expected to be earned on the investments of the college. These benefits are funded on a pay-as-you-go basis from current funds each year. For the year ended June 30, 2006, the expenses for the 20 percent incentive stipend were $218,415 and the expenses for medical and dental insurance were $165,940.

Note 13 Changes in Noncurrent Liabilities

The following is a summary of the changes to the College's noncurrent liabilities during the fiscal year ended June 30, 2006.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue Bonds	$19,900,000	$ -	$(1,715,000)	$18,185,000	$1,790,000
Less deferred amounts, discounts, and premiums	(1,224,821)	-	95,757	(1,129,064)	(95,756)
Total Bonds payable	18,675,179	-	(1,619,243)	17,055,936	1,694,244
Capital Leases	10,337,365	783,529	(488,092)	10,632,802	334,040
Total Bonds and Capital Leases	29,012,544	783,529	(2,107,335)	27,688,738	2,028,284
Early Retirement	723,797	746,204	(384,355)	1,085,646	445,551
Compensated Absences	2,812,295	1,815,324	(1,681,428)	2,946,191	964,516
Total Noncurrent Liabilities	$32,548,636	$3,345,057	$(4,173,118)	$31,720,575	$3,438,351

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

	2006	2005
Notes Payable	$1,504,487	$1,639,172
Deferred annuity payments	692,035	740,269
Prepaid rental income	502,183	569,142
Total noncurrent liabilities	$2,698,705	$2,948,583

Note 14 Pension Plans and Retirement Benefits

Plan Description

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

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

Funding Policy

Plan members in the State and School Contributory Retirement System are required to contribute 6.00 percent of their annual covered salary (all or part may be paid by the employer for the employee) and the College is required to contribute 8.89 percent of their annual covered salary. In the State and School Noncontributory Retirement System, the College is required to contribute 13.38 percent of their annual covered salary. The contribution rates are actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Note 14 Pension Plans and Retirement Benefits (continued)

The College contributions to the URS were:

	June 30, 2006	June 30, 2005	June 30, 2004
State and School Contributory Retirement System	$ 214,037	$ 206,943	$ 181,802
Noncontributory Retirement System	$ 2,442,390	$ 2,296,464	$ 2,006,937
401(k) Plan	$ 273,820	$ 257,469	$ 257,286

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

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

For the year ended June 30, 2006, the College's contribution to this defined contribution plan was 14.2 percent of the employee's eligible annual salary or $4,944,257. The College has no further liability once annual contributions are made.

Note 15 Risk Management

Due to the diverse risk exposure of the College, the insurance portfolio contains a full variety of coverage. The College participates in basic general liability, tort claim coverage, directors and officers liability, and property and casualty programs provided by the State of Utah Department of Risk Management. The College's liabilities for this policy are limited to the cost of premiums. In addition to these basic policies, the College's Department of Risk, Plant, and Property Management establishes guidelines in risk assessment, risk avoidance, risk transfer, and risk acceptance. The College's buildings and contents are insured for replacement value. Each loss incident is subject to a $1,000 deductible.

Note 16 Commitments and Contingent Liabilities

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

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

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 College. Construction projects are recorded on the books of the College as funds are expensed, or when projects are substantially completed if funded through State Appropriations administered through DFCM.

As of June 30, 2006, the College had outstanding commitments to DFCM for an airport hanger addition totaling $200,000. Funding was also approved by the legislature towards the construction of a Digital Learning Center. Construction of the Center will begin during the fall of 2006 with an expected completion date during the spring of 2009. The State will fund $46,750,000 of the construction with $1,250,000 of the costs to be raised by the College. These commitments represent funds needed in the future and are not recorded on the books.

Note 17 Self-Insurance for Employee Health and Dental Care

As of July 1, 2006 the College established a self-insurance fund for employee health and dental care costs. An estimated claims liability is expected to be reported in future financial statements.

Note 18 Natural Classifications with Functional Classifications

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

Year Ended June 30, 2006

Functional Classification	Natural Classification							
	Compensation	Benefits	Financial Aid	Maintenance	General and Administrative	Auxiliary	Depreciation	Total
Instruction	37,451,676	13,892,852	-	610,616	7,522,373	-	-	59,477,517
Academic Support	7,443,008	3,188,383	-	154,056	2,858,872	-	-	13,644,319
Student Services	7,998,529	3,593,278	-	99,413	2,790,310	-	-	14,481,530
Institutional Support	10,030,476	4,379,097	-	861,982	8,090,560	-	-	23,362,115
Operation and Maintenance of Plant	3,401,242	1,947,147	-	4,553,003	1,410,822	-	-	11,312,214
Student Financial Aid	1,557,758	23,858	17,994,924	-	-	-	-	19,576,540
Public Service	61,747	26,146	-	-	30,187	-	-	118,080
Auxiliaries	2,921,135	968,184	-	279,438	2,437,960	7,999,185	-	14,605,902
Depreciation	-	-	-	-	-	-	6,483,546	6,483,546
Total Expenses	**70,865,571**	**28,018,945**	**17,994,924**	**6,558,508**	**25,141,084**	**7,999,185**	**6,483,546**	**163,061,763**

Year Ended June 30, 2005

Functional Classification	Natural Classification							
	Compensation	Benefits	Financial Aid	Maintenance	General and Administrative	Auxiliary	Depreciation	Total
Instruction	35,416,517	12,745,920	-	572,782	7,222,738	-	-	55,957,957
Academic Support	6,807,896	2,858,250	-	119,766	2,579,049	-	-	12,364,961
Student Services	7,283,148	3,235,701	-	111,305	2,599,540	-	-	13,229,694
Institutional Support	9,165,594	3,842,412	-	894,486	7,583,710	-	-	21,486,202
Operation and Maintenance of Plant	3,159,307	1,742,806	-	4,511,572	1,164,800	-	-	10,578,485
Student Financial Aid	1,755,569	20,221	17,224,787	-	-	-	-	19,000,577
Public Service	92,149	33,067	-	152	9,547	-	-	134,915
Auxiliaries	2,617,434	812,375	-	271,468	1,996,981	7,826,133	-	13,524,391
Depreciation	-	-	-	-	-	-	6,112,068	6,112,068
Total Expenses	**66,297,614**	**25,290,752**	**17,224,787**	**6,481,531**	**23,156,365**	**7,826,133**	**6,112,068**	**152,389,250**

Note 19 Related Party Transactions

The College entered into various agreements involving the Foundation:

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

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

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

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

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

**THIS REPORT IS PREPARED BY THE OFFICE OF THE
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Board of Trustees

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Utah Valley State College