

Utah Valley University

A Component Unit of the State of Utah



2008 Annual Financial Report



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GVU

President's Message for Annual Financial Report



Since arriving at UVU in July of 2007 as the Academic Vice President and then assuming the position as Interim President in August of 2008, I have been continually impressed with the integrity and dedication of our employees who professionally and appropriately manage institutional resources. Because of their diligent efforts, UVU continues to be a fiscally stable institution.

The 2007-2008 fiscal year was one of change as UVSC attained university status and transitioned to UVU. Significant to the transition and this report are the following highlights: 1) the state legislature's appropriation of \$10 million for university status (\$8 million in FY 08 and \$2 million in FY 09), 2) the approval of a new mission statement with a focus on engaged learning and community engagement, 3) a total of \$35 million in donor commitments, including \$20 million from the Woodbury family to name the school of business and for new programs, 4) the disbursement of \$400,000 in grant monies by the Center for Engaged Learning in support of our new mission, 5) unveiling of new logos and university seal, 6) the change in more than 60,000 web pages to the new "uvu.edu" and 1,500 email address changes, 7) the replacement of over 1,200 interior and exterior campus signs including a new digital marquee by I-15 and, 8) the completion of our new \$48 million library, with its official opening on July 1, 2008 as part of our UVUphoria! celebration.

In spite of current, uncertain economic times, the future of Utah Valley University (UVU) looks bright. UVU is making a positive difference in the lives of those it serves as we strive to become the premier engaged university in the nation. Thank you for your continuing support.

Sincerely,

A handwritten signature in black ink, which appears to read "Elizabeth Hitch".

Elizabeth J. Hitch
Interim President



Auston G. Johnson, CPA
UTAH STATE AUDITOR

STATE OF UTAH
Office of the State Auditor

UTAH STATE CAPITOL COMPLEX
EAST OFFICE BUILDING, SUITE E310
P.O. BOX 142310
SALT LAKE CITY, UTAH 84114-2310
(801) 538-1025
FAX (801) 538-1383

DEPUTY STATE AUDITOR:
Joe Christensen, CPA

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

INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Trustees, Audit Committee,
and
Elizabeth J. Hitch, Interim President
Utah Valley University

We have audited the accompanying financial statements of Utah Valley University (the University) and, based on the report of other auditors, its discretely presented component unit foundation, which collectively comprise the University's basic financial statements, as of and for the year ended June 30, 2008, as listed in the Table of Contents. The University is a component unit of the State of Utah. These financial statements are the responsibility of the University'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 University's 2007 financial statements and, in our report dated November 9, 2007, 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 on the effectiveness of the University'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, 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 the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its discretely presented component unit foundation as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows 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 December 10, 2008 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 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's discussion and analysis on pages 5 through 14 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
December 10, 2008



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, 2008, with comparative information for the year ended June 30, 2007. 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.

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 University 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 University. 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 University. 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 University.

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 University's equity in property, plant, and equipment owned by the University. 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 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 assets. Unrestricted net assets are available for expenditure for any lawful purpose of the University.

Statement of Net Assets, Condensed

	2008	2007	Change	% Change
ASSETS				
Current assets	\$ 69,972,293	\$ 54,723,828	\$ 15,248,465	27.9%
Noncurrent Notes receivable, net	1,684,702	1,848,491	(163,789)	(8.9%)
Capital Assets, net	160,603,596	155,190,761	5,412,835	3.5%
Total Assets	232,260,591	211,763,080	20,497,511	9.7%
LIABILITIES				
Current Liabilities	15,565,070	12,727,315	2,837,755	22.3%
Noncurrent Liabilities	25,240,610	27,006,820	(1,766,210)	(6.5%)
Total Liabilities	40,805,680	39,734,135	1,071,545	2.7%
NET ASSETS				
Invested in capital assets, net of debt	136,352,761	128,596,524	7,756,237	6.0%
Restricted				
Expendable	10,848,578	11,646,549	(797,971)	(6.9%)
Unrestricted	44,253,572	31,785,872	12,467,700	39.2%
Total Net Assets	\$ 191,454,911	\$172,028,945	\$ 19,425,966	11.3%

The increase in current assets held by the University is mainly due to an increase in cash in the amount of approximately \$9.8 million and an increase of nearly \$3.0 million in accounts receivable. The overall increase in current assets is due to an increase in tuition and fee, federal grant, appropriation, gift, and interest revenues in excess of a smaller increase in expenditures mainly related to salaries and benefits, general and administrative and auxiliary expenses. Noncurrent notes receivable decreased as the amount of student Perkins Loans for the year decreased and as notes were collected.

The University made various capital asset additions during fiscal year 2008. The purchase of two parcels of land adjacent to the campus as well as various equipment purchases accounted for a significant portion of the net increase in capital assets.

Current liabilities increased this fiscal year due mainly to an increase in accounts payable at year end. Smaller increases occurred in the accrual of the claims payable liability associated with the University's self insurance medical and dental plan and an increase in deferred summer tuition.

The decrease in noncurrent liabilities was related to payments made towards the bonds, leases, and notes owed by the University. No new bonds were issued during the year. A 10.3% decrease in bonds, notes, and capital leases was offset by a 25.4% increase in accrued liabilities mainly associated with increases in the early retirement and accrued vacation liabilities.

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 University, the operating and nonoperating expenses paid by the University, and any other revenues, expenses, gains, or losses received or spent by the University.

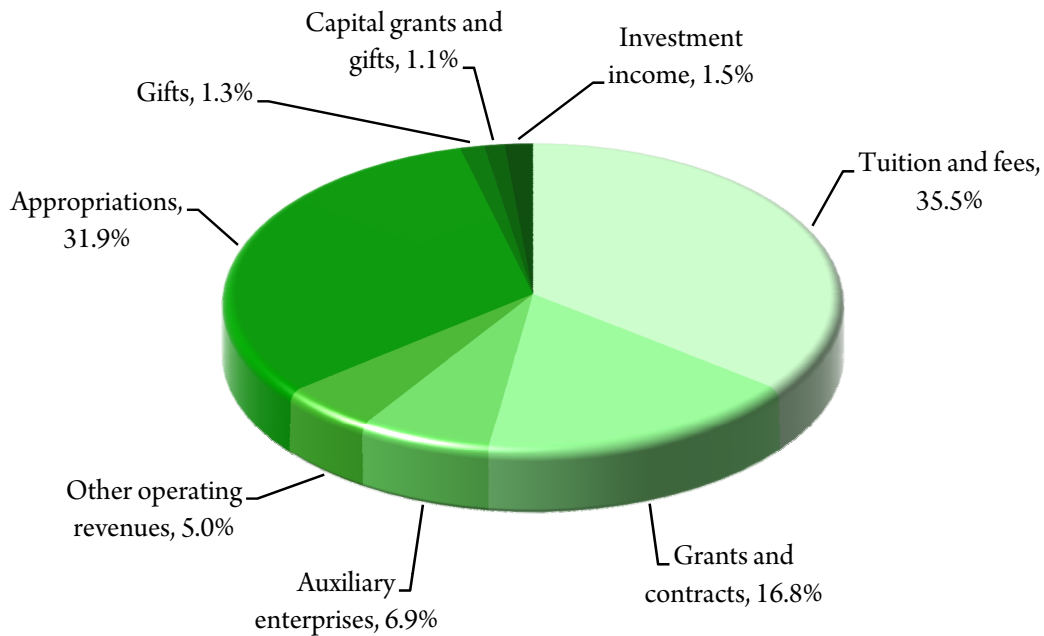
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for operating revenues and to carry out the mission of the University. 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 University without the Legislature directly receiving commensurate goods or services for those revenues.

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

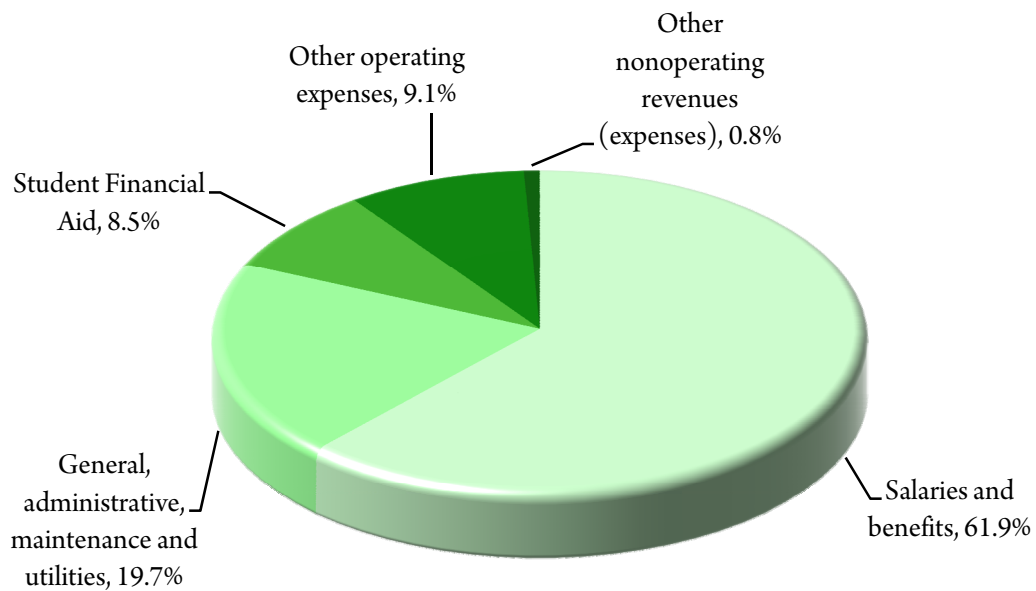
	2008	2007	Change	% Change
REVENUES				
<i>Operating revenues</i>				
Student tuition and fees	\$ 72,497,743	\$ 66,916,517	\$ 5,581,226	8.3%
Grants and contracts	27,008	-	27,008	100.0%
Auxiliary enterprises	13,955,359	12,847,805	1,107,554	8.6%
Other	10,315,658	9,726,214	589,444	6.1%
Total operating revenues	96,795,768	89,490,536	7,305,232	8.2%
EXPENSES				
<i>Operating expenses</i>				
Salaries and benefits	114,571,040	102,617,671	11,953,369	11.6%
Student financial aid	15,692,558	18,387,200	(2,694,642)	(14.7%)
General and administrative, maintenance and utilities	36,332,075	30,337,633	5,994,442	19.8%
Auxiliary enterprises	9,753,283	8,988,557	764,726	8.5%
Other	7,081,286	6,778,235	303,051	4.5%
Total operating expenses	183,430,242	167,109,296	16,320,946	9.8%
Operating loss	(86,634,474)	(77,618,760)	(9,015,714)	11.6%
NONOPERATING REVENUES (EXPENSES)				
State appropriations	64,323,451	50,590,656	13,732,795	27.1%
Grants and contracts	34,407,339	32,997,221	1,410,118	4.3%
Gifts	2,704,303	2,275,526	428,777	18.8%
Investment income	3,053,360	2,667,442	385,918	14.5%
Other nonoperating revenues (expenses)	(1,539,486)	(1,525,790)	(13,696)	.9%
Net nonoperating revenues	102,948,967	87,005,055	15,943,912	18.3%
Income before other revenues	16,314,493	9,386,295	6,928,198	73.8%
Capital appropriations	832,849	3,620,752	(2,787,903)	(77.0%)
Capital grants and gifts	2,278,624	606,365	1,672,259	275.8%
Other revenues	3,111,473	4,227,117	(1,115,644)	(26.4%)
Increase in net assets	19,425,966	13,613,412	5,812,554	42.7%
Net assets – beginning	172,028,945	158,415,533	13,613,412	8.6%
Net assets - ending	\$ 191,454,911	\$ 172,028,945	\$ 19,425,966	11.3%

The following graphs illustrate operating and nonoperating revenues and expenses as a percent of the total for the year ended June 30, 2008.

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 \$7.3 million. Tuition and fees accounted for a significant portion of that increase with a \$5.6 million increase over the prior reporting period due mainly to an overall increase in student enrollment for the applicable semesters of 4.9%. Also attributing to the increase was an increase in tuition rates of approximately 6.7% from the previous school year.

Auxiliary enterprise revenue increased by \$1.1 million as food sales, rentals and computer sales all saw increases for the year. Other operating revenues increased by \$589 thousand as distance education, study abroad, and aviation flight time revenue increased.

Operating expenses increased by \$16.3 million. The majority of the increase was due to increases in salary and benefit expenses with a smaller increase in general and administrative expenses. Salaries increased by \$8.6 million or 11.5% attributable to the addition of new faculty and staff positions during the year as well as cost of living increases. The increase in benefits was \$3.4 million or 12.0%. The increase occurred in benefits due to the increase in salaries which subsequently increased the amount of taxes and retirement contributions paid by the University. The University also saw an increase in the amount of medical claims paid under the University's self-funded medical and dental insurance plan.

Student financial aid decreased 14.7% or \$2.7 million for the year. Total aid awarded actually increased by \$706 thousand due to the increase in students and an increase in awards but the offsetting adjustment for tuition waivers increased by \$3.4 million thus reducing the total amount of aid reported. General and administrative, maintenance and utilities expenses saw an overall increase of \$6.0 million or 19.8%. Accounting for that change were increases in computer and software purchases, increases in maintenance and repair costs, and increases in utility costs.

Auxiliary enterprise expenses increased \$765 thousand or 8.5%. As noted above auxiliary sales increased by 8.6% accounting for a portion of the change as purchases increased and an increase in costs for new text books, computers, software, and food accounted for the remainder of the change. Other operating expenses increased by \$303 thousand as depreciation increased for the year.

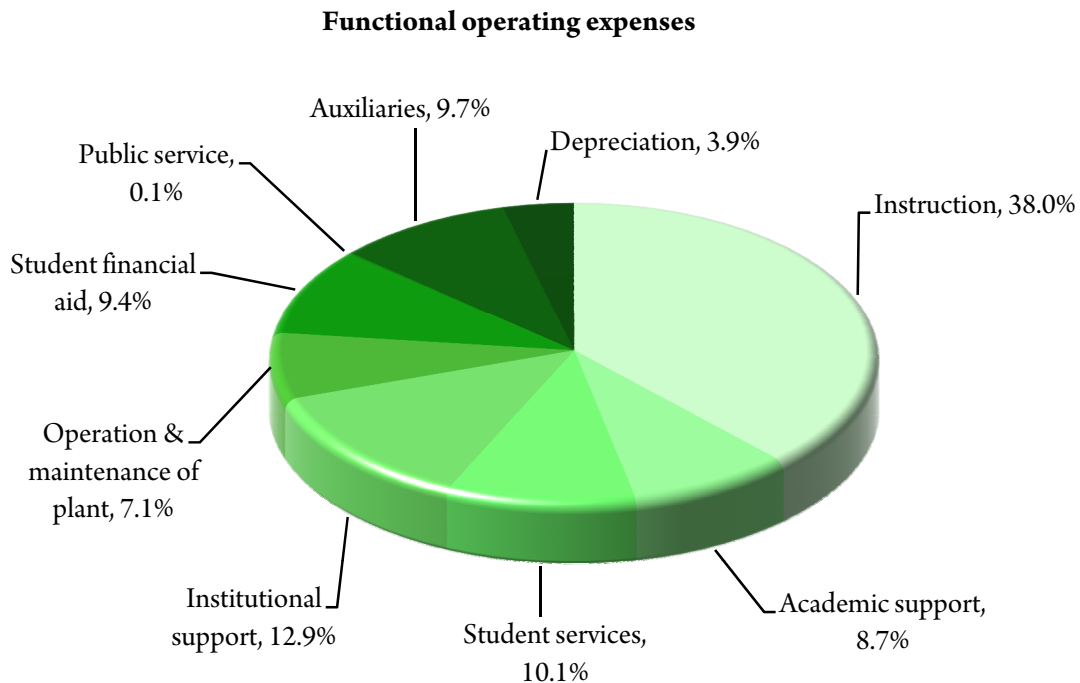
Nonoperating revenues and (expenses) saw an increase in revenues of \$16.0 million or 18.0% and a small increase in expenses of \$13 thousand or 0.9%. State appropriations increased by 13.7 million or 27.1% with increased funding from the State Legislature to aid the school in its University transition. Federal and State grants increased by \$1.4 million, gifts increased by \$429 thousand, and investment income increased by \$386.

Other revenues and expenses decreased in total by \$1.1 million as capital appropriations decreased by \$2.8 million as less funding was received for capital projects. Capital grants and gifts increased by \$1.7 million due to an increase in state grants received of \$873 thousand and an increase in gifts of \$799 thousand.

The following is a summary of the University's expenses by programmatic (functional) classification for the years ended June 30, 2008, and 2007:

	2008	2007	Change	% Change
Operating Expenses				
Instruction	\$ 69,706,622	\$ 62,777,190	\$ 6,929,432	11.0%
Academic support	16,013,489	13,791,437	2,222,052	16.1%
Student services	18,518,910	16,704,946	1,813,964	10.9%
Institutional support	23,715,263	20,553,483	3,161,780	15.4%
Operation & maintenance of plant	13,087,125	10,358,280	2,728,845	26.3%
Student financial aid	17,317,643	20,180,848	(2,863,205)	(14.2%)
Public service	271,645	199,209	72,436	36.4%
Auxiliaries	17,718,259	15,765,668	1,952,591	12.4%
Depreciation	7,081,286	6,778,235	303,051	4.5%
Total Operating Expenses	\$ 183,430,242	\$ 167,109,296	\$ 16,320,946	9.8%

The following graph illustrates functional operating expenses as a percentage of the total for the year ended June 30, 2008.



The \$6.9 million increase in instruction related costs are related to an increase of \$6.2 million in salaries and benefits due to cost of living increases and new hires, and a \$733 thousand increase in equipment, maintenance, and service costs. Costs associated with academic support increased by \$2.2 million. \$1.4 million of the increase is related to cost of living increases of salaries and its related effect on benefits. The remaining \$848 thousand in change is related to increased general and administrative costs of \$1.2 million and a \$350 thousand decrease in maintenance costs.

Costs associated with student services increased by \$1.8 million with \$1.7 million of the increase being related to cost of living increases of salaries and its related effect on benefits. The remaining change is related to increased general and administrative costs and maintenance costs.

Costs related to institutional support saw an increase of \$3.2 million of which \$2.1 million of the increase is related to cost of living increases and new hires. General and administrative costs decreased by \$348 thousand while maintenance costs increased by \$1.2 million.

Operation and maintenance of plant expenditures associated with maintenance, and general and administrative costs increased by \$2.3 million through utility cost increases, and an increase in expenditures for maintenance and repairs. There was also an increase of nearly \$454 thousand in salary and benefits due mainly to the cost of living increases.

Auxiliaries experienced a \$2.0 million increase as salaries and benefits increased \$288 thousand, general and administrative costs increased by \$871 thousand, and cost of goods sold increased by \$765 thousand.

Student financial aid saw a decrease as explained in previous paragraphs. Public service saw a small increase of \$72 thousand and depreciation increased by \$303 thousand.

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 Assets.

Statement of Cash Flows, Condensed

	2008	2007	Change	% Change
Cash provided (used) by:				
Operating activities	\$ (80,209,933)	\$ (69,336,057)	\$ (10,873,876)	15.7%
Noncapital financing activities	100,425,652	88,425,345	12,000,307	13.6%
Capital and related financing activities	(13,433,838)	(7,916,715)	(5,517,123)	69.7%
Investing activities	3,053,868	2,668,039	385,829	14.5%
Change in cash	9,835,749	13,840,612	(4,004,863)	(28.9%)
Cash - Beginning of Year	45,499,904	31,659,292	13,840,612	43.7%
Cash – End of Year	\$ 55,335,653	\$ 45,499,904	\$ 9,835,749	21.6%

The University's cash increased due to an increase in noncapital financing activities. The noncapital financing activity increase over the prior year is related to an increase of \$12.9 million in state appropriations and a \$387 thousand increase in Gifts. Federal, state and private grants and contracts decreased by \$1.3 million from the prior year.

Operating activities accounted for a \$10.9 million increase in cash outlays over the prior year as cash increases from tuition and fees of \$6.1 million, and a \$1.7 million increase in cash receipts from auxiliary and educational sales and services over the prior year were overshadowed by a \$9.5 million increase in cash payments to suppliers and a \$12.1 million increase in payments for employee services and benefits.

The \$5.5 million increase in cash paid for capital and related financing activities as compared to the prior year is due mainly to an increase in capital asset expenditures of \$5.2 million. The increase in cash from investing activities is an increase in the amount of interest received during the year related to higher interest rates and the increase in the cash balance.

Outlook

The University's overall financial position is strong and in spite of the current economic conditions the outlook for the future looks bright. The Utah Legislature unanimously passed SB070, granting UVU university status, effective July 1, 2008. The move from college to university has increased the awareness of the University and support has been positive. The move to university will further advance the schools' role in the community and will allow a wider range of opportunities not only to the students but to the community.

The new Digital Learning Center opened its doors in July of 2008. This five-story library will provide much needed space for collections, study rooms, seminar rooms, media viewing rooms, a

café, and more than 100 public computers. Students and faculty now have increased access to research and resource materials.

The economy of the State of Utah has weathered the recent economic struggles better than most states but it is not without its own challenges and future revenue shortfalls are expected. An emergency session was held on Capitol Hill in an attempt to reduce spending state wide in anticipation of a budget shortfall. All State Universities were asked to cut their budgets by 4 percent.

During fall of 2008 the University experienced an increase in enrollment of nearly 11 percent over fall of 2007. As tuition and fees as a percent of total revenues (35.5%) is greater than the percentage of state appropriations as a percentage of total revenue (31.9%) for the University the budget cuts will be tempered by the increase in tuition and fees collected.

The University is continuing to project growth in enrollment over the next ten years, and the University is making every effort to meet those needs, while continuing to preserve the standards of excellence and maintaining its commitment to engaged learning.

Financial Statements



**Utah Valley University
Statement of Net Assets
As of June 30, 2008**

	Primary Institution UVU 2008	Component Unit UVU Foundation 2008	Total 2008	Comparative Total 2007
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 55,335,653	\$ 2,993,865	\$ 58,329,518	\$ 46,460,205
Short term investments	1,213,183	-	1,213,183	1,164,537
Accounts receivable, net	8,447,363	-	8,447,363	5,483,644
Notes receivable - related party	-	200,000	200,000	200,000
Notes and pledges receivable, net	432,701	1,389,713	1,822,414	916,312
Prepaid expenses - related party	906,294	-	906,294	435,226
Prepaid expenses, deferred charges	1,178,890	5,312	1,184,202	305,888
Inventories	2,458,209	-	2,458,209	1,488,055
Total current assets	<u>69,972,293</u>	<u>4,588,890</u>	<u>74,561,183</u>	<u>56,453,867</u>
<i>Noncurrent assets</i>				
Restricted investments	-	21,164,798	21,164,798	16,914,582
Notes receivable - related party	-	400,000	400,000	600,000
Notes and pledges receivable, net	1,684,702	484,586	2,169,288	1,736,267
Other long term assets	-	6,222,494	6,222,494	6,538,726
Non depreciable capital assets	19,482,225	2,527,600	22,009,825	16,267,410
Depreciable capital assets, net	141,121,371	8,722,499	149,843,870	151,340,309
Total noncurrent assets	<u>162,288,298</u>	<u>39,521,977</u>	<u>201,810,275</u>	<u>193,397,294</u>
Total assets	<u>232,260,591</u>	<u>44,110,867</u>	<u>276,371,458</u>	<u>249,851,161</u>
LIABILITIES				
<i>Current liabilities</i>				
Accounts payable	4,024,465	-	4,024,465	2,587,002
Accrued liabilities	4,677,868	571,392	5,249,260	4,584,689
Other liabilities	539,912	-	539,912	758,131
Deferred revenue - related party	-	906,294	906,294	435,226
Deferred revenue	3,251,143	-	3,251,143	2,579,476
Current portion of notes - related party	200,000	-	200,000	200,000
Current portion of bonds and capital leases	2,360,638	165,957	2,526,595	2,372,526
Funds held for others	511,044	-	511,044	411,479
Total current liabilities	<u>15,565,070</u>	<u>1,643,643</u>	<u>17,208,713</u>	<u>13,928,529</u>
<i>Noncurrent liabilities</i>				
Accrued liabilities	3,550,413	-	3,550,413	2,830,326
Notes - related party	400,000	-	400,000	600,000
Bonds and capital leases	21,290,197	1,039,371	22,329,568	24,781,823
Total noncurrent liabilities	<u>25,240,610</u>	<u>1,039,371</u>	<u>26,279,981</u>	<u>28,212,149</u>
Total liabilities	<u>40,805,680</u>	<u>2,683,014</u>	<u>43,488,694</u>	<u>42,140,678</u>
NET ASSETS				
Invested in capital assets, net of related debt	136,352,761	10,044,771	146,397,532	139,653,371
Restricted for:				
Nonexpendable				
Scholarships	-	13,599,928	13,599,928	10,438,312
Expendable				
Scholarships and grants	6,605,593	17,115,097	23,720,690	18,982,761
U. S. government grants, refundable	1,744,909	-	1,744,909	1,744,909
Loans	992,361	-	992,361	1,028,418
Capital projects	993,723	-	993,723	3,026,892
Debt service	511,992	-	511,992	487,513
Unrestricted	44,253,572	668,057	44,921,629	32,348,307
Total net assets	<u>\$ 191,454,911</u>	<u>\$ 41,427,853</u>	<u>\$ 232,882,764</u>	<u>\$ 207,710,483</u>

The accompanying notes are an integral part of the Financial Statements

Utah Valley University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008

	Primary Institution UVU 2008	Component Unit UVU Foundation 2008	Total 2008	Comparative Total 2007
REVENUES				
<i>Operating revenues</i>				
Student tuition and fees (net of allowances of \$10,243,958)	\$ 72,497,743	\$ -	\$ 72,497,743	\$ 66,916,517
Federal grants and contracts	27,008	-	27,008	-
Sales and service of education departments	5,673,972	-	5,673,972	5,361,248
Auxiliary enterprises (net of scholarship allowances of \$1,250,052)	13,955,359	-	13,955,359	12,847,805
Other operating revenues	4,641,686	-	4,641,686	4,364,966
Total operating revenues	96,795,768	-	96,795,768	89,490,536
EXPENSES				
<i>Operating expenses</i>				
Salaries	83,152,507	-	83,152,507	74,581,613
Fringe benefits	31,418,533	-	31,418,533	28,036,058
Student financial aid	15,692,558	1,503,130	17,195,688	19,401,394
Maintenance and utilities	8,690,510	-	8,690,510	6,042,927
General and administrative	27,641,565	3,272,635	30,914,200	26,821,172
Cost of goods sold - auxiliary enterprises	9,753,283	-	9,753,283	8,988,557
Depreciation	7,081,286	-	7,081,286	6,778,235
Total operating expenses	183,430,242	4,775,765	188,206,007	170,649,956
Operating loss	(86,634,474)	(4,775,765)	(91,410,239)	(81,159,420)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	64,323,451	-	64,323,451	50,590,656
Federal grants and contracts	28,114,130	-	28,114,130	27,431,275
State grants and contracts	6,293,209	-	6,293,209	5,512,868
Private grants and contracts	-	-	-	53,078
Gifts	2,704,303	7,461,123	10,165,426	8,799,774
Investment income (net of Foundation investment expense of \$165,448)	3,053,360	168,891	3,222,251	4,916,990
Interest on capital asset-related debt	(1,326,697)	-	(1,326,697)	(1,434,900)
Other nonoperating revenues (expenses)	(212,789)	166,008	(46,781)	19,048
Net nonoperating revenues	102,948,967	7,796,022	110,744,989	95,888,789
Income before other revenues, expenses, gains, or losses	16,314,493	3,020,257	19,334,750	14,729,369
Capital appropriations	832,849	-	832,849	3,620,752
Gifts to endowments	-	2,726,058	2,726,058	827,109
Capital grants and gifts	2,278,624	-	2,278,624	606,365
Total other revenues	3,111,473	2,726,058	5,837,531	5,054,226
Increase in net assets	19,425,966	5,746,315	25,172,281	19,783,595
NET ASSETS				
Net assets--beginning of year	172,028,945	35,681,538	207,710,483	187,926,888
Net assets--end of year	\$ 191,454,911	\$ 41,427,853	\$ 232,882,764	\$ 207,710,483

The accompanying notes are an integral part of the Financial Statements

Utah Valley University
Statement of Cash Flows
For the Year Ended June 30, 2008

Primary Institution
UVU

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tuition and fees	\$ 72,549,493
Receipts from grants and contracts	27,008
Receipts from auxiliary and educational sales and services	20,017,030
Collection of loans to students	232,002
Payments to suppliers	(48,197,556)
Payments for employee services and benefits	(113,212,657)
Payments for student aid: scholarships and fellowships	(15,692,558)
Loans issued to students	(354,511)
Other operating payments	(149,584)
Other operating receipts	4,571,400
Net cash used by operating activities	(80,209,933)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	63,388,279
Federal, state and private grants and contracts	34,011,247
Gifts	3,026,126
Net cash provided by noncapital financing activities	100,425,652
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital grants and gifts received	34,580
Capital appropriations	102,244
Purchases of capital assets	(9,913,390)
Principal paid on capital debt and leases	(2,527,015)
Interest paid on capital debt and leases	(1,218,113)
Proceeds from capital debt issued	87,856
Net cash used by capital and related financing activities	(13,433,838)
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of interest on investments	3,053,868
Net cash provided by investing activities	3,053,868
Net decrease in cash	9,835,749
Cash and cash equivalents - beginning of year	45,499,904
Cash and cash equivalents - end of year	\$ 55,335,653
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITY	
Operating income (loss)	\$ (86,634,474)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	7,081,286
Changes in assets and liabilities	
Receivables, net	(783,717)
Inventories	(970,154)
Prepaid expenses, deferred charges	(1,348,100)
Accounts payable	985,742
Accrued liabilities	1,424,472
Deferred revenue	671,667
Funds held for others	(418,435)
Other liabilities	(218,220)
Net Cash Used by Operating Activities	\$ (80,209,933)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Donated library books	\$ 25,269
Donated assets	1,324,987
Assets contributed by DFCM	832,849
Total Noncash Activities	\$ 2,183,105

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. 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) 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 University President is a permanent non-voting member of the Board. The University 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 independent auditors and are available through the University's Institutional Advancement Office upon request. These statements follow the Financial Accounting Standards Board (FASB) guidelines. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information included in the University's financial report.

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 University's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

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.

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

Cash Equivalents

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

Investments

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

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 University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life greater than one year. Buildings, building additions, and building improvements that extend the useful life of the asset or infrastructure, and leasehold and land improvements are capitalized if the cost is over \$50,000. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

Noncurrent Liabilities

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

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.

Classification of Revenues and Expenses

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

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

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating cash flows by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, GASB No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, such as state appropriations and investment income, and GASB Q & A Statement 34B-132 [amended 2007], such as Pell Grants and like revenues.

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

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 Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt: 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 invested in capital assets, net of related debt.

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 University 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 University, 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 University

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

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

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

Deposits

At June 30, 2008, the carrying amounts of the University's deposits and bank balances were \$3,943,971 and \$4,629,753, respectively. The bank balances of the University were insured for \$200,000, by the Federal Deposit Insurance Corporation. The bank balances in excess of \$200,000 were uninsured and uncollateralized, leaving \$4,429,753 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 University's deposits may not be returned to the University. The University does not have a formal deposit policy for custodial credit risk.

Investments

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

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.

As of June 30, 2008, the University 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	\$ 52,550,836	\$ 52,550,836
Money Market Mutual Fund comprised of Government Securities	223	223
Totals	\$ 52,551,059	\$ 52,551,059

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act or the UPMIFA and Rule 541, as applicable. For non-endowment funds, Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 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.

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, 2008, the University had investments and quality ratings as follows.

Investment Type	Fair Value	Quality Rating	
		AAA	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 52,550,836	\$ -	\$ 52,550,836
Money Market Mutual Fund comprised of Government Securities	223	223	-
Totals	\$ 52,551,059	\$ 223	\$ 52,550,836

The University's investments in the money market mutual funds were comprised of government securities and were 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 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 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 overall endowment portfolio be invested in fixed income or cash equivalents. Also, the overall endowment portfolio cannot consist of more than 75% equity investments. Rule 541 also limits investments in alternative investment funds, as allowed by Rule 541, to between 0% and 30% based on the size of the University's endowment fund.

Custodial Credit Risk

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

The Foundation

Deposits – The Foundation

The Foundation maintains its cash balances in the Public Treasurer’s Investment Fund (PTIF) with the Utah State Treasurer and in several financial institutions. The amount on deposit at June 30, 2008, in the PTIF account was \$2,951,687 and was combined with the University’s PTIF account. Although this amount is not covered by federal depository insurance nor guaranteed by the State, PTIF balances are secured by investments purchased in compliance with the Act. The total amount deposited in various other financial institutions at June 30, 2008, was \$42,178, 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.

Investments – The Foundation

As of June 30, 2008, the Foundation 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
Money Market Accounts	\$ 1,273,532	\$ 1,273,532	\$ -	\$ -	\$ -
Certificates of Deposit	636,001	567,869	68,132	-	-
US Government Securities	2,452,185	184,820	1,222,202	490,702	554,461
Corporate Bonds	2,340,436	2,137,929	202,507	-	-
Mutual Funds	335,928	-	329,323	6,605	-
Total	7,038,082	\$ 4,164,150	\$ 1,822,164	\$ 497,307	\$ 554,461
Common and Preferred Stocks	14,126,716				
Total	\$ 21,164,798				

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.

At June 30, 2008, the Foundation's credit quality ratings for investments in debt securities were as follows:

Investment Type	Fair Value	Quality Rating			Unrated
		AAA to A+	A	B	
Money Market Accounts	\$ 1,273,532	\$ -	\$ -	\$ -	\$ 1,273,532
Corporate Bonds	2,340,426	458,365	330,958	7,218	1,543,895
Mutual Funds	335,928	-	-	-	335,928
Totals	\$ 3,949,896	\$ 458,365	\$ 330,958	\$ 7,218	\$ 3,153,355

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.

Note 3 Accounts and Notes and Pledges Receivable

University accounts receivable consisted of the following at June 30, 2008:

Student tuition and fees	\$ 4,918,100
Operating activities	431,935
Auxiliary enterprises	546,321
Utah County Academy of Sciences	893,788
Department of Facilities Construction and Management	1,042,338
State grants and contracts	40,239
Federal grants and contracts	1,617,065
Total	<u>9,489,786</u>
Less allowance for doubtful accounts	<u>(1,042,423)</u>
Net accounts receivable	<u><u>\$ 8,447,363</u></u>

University notes and pledges receivable consisted of the following at June 30, 2008:

Loans to students	\$ 2,404,596
Less allowance for doubtful accounts	<u>(287,193)</u>
Net notes receivable	<u>2,117,403</u>
Less noncurrent portion	<u>(1,684,702)</u>
Current portion	<u><u>\$ 432,701</u></u>

Student loans made through the Federal Perkins Loan Program comprise substantially all of the notes receivable at June 30, 2008. 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 University 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 University a portion of amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible to be forgiven by the Federal Government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans which in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2008, the allowance for uncollectible loans was \$287,193.

Note 4 Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred charges consisted of the following at June 30, 2008:

Prepaid Expenses	
Prepaid lease expense	\$ 1,913,940
Prepaid software expense	9,225
Total prepaid expenses	<u>1,923,165</u>
Deferred Charges	
Bond issue costs	206,019
Credits due the Bookstore	(44,000)
Total deferred charges	<u>162,019</u>
Total Prepaid Expenses and Deferred Charges	<u>2,085,184</u>
Less Related Party Prepaid Leases	<u>(906,294)</u>
Total	<u><u>\$ 1,178,890</u></u>

Note 5 Inventories

Inventories at June 30, 2008 were as follows:

Auxiliary enterprises	\$ 1,781,391
Supplies and other inventory	676,818
Total	<u><u>\$ 2,458,209</u></u>

Note 6 Accounts Payable and Accrued Liabilities

University accounts payable consisted of the following at June 30, 2008:

State taxes payable	\$ 16,344
Interest payable	173,005
Vendors payable	2,416,742
DFCM payable	650,947
State and Federal Grants	493,822
Employee deposits payable	273,605
Total Accounts Payable	<u><u>\$ 4,024,465</u></u>

University accrued liabilities consisted of the following at June 30, 2008:

Federal taxes payable	\$ 61,112
State taxes payable	289,641
Wages payable	390,501
Accrued retirement payable	1,382,422
Accrued leave payable	3,501,020
Medical and Dental claims payable	2,006,564
Payroll liabilities	597,021
Total Accrued Liabilities	8,228,281
Less noncurrent portion	(3,550,413)
Current portion	\$ 4,677,868

Note 7 Deferred Revenue

Deferred revenue of the University consisted of the following at June 30, 2008:

Prepaid tuition and fees	\$ 3,251,143
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Note 8 Capital Assets

The following are the changes in capital assets of the University for the year ended June 30, 2008:

	Beginning Book Value	Increases	Decreases	Ending Book Value
Capital Assets not Being Depreciated				
Land	\$ 8,889,816	\$ 4,427,235	\$ -	\$ 13,317,051
Land improvements – nondepreciable	3,101,555	255,215	-	3,356,770
Works of art and historical treasures	116,000	104,073	-	220,073
Construction in process	851,439	2,413,861	(676,969)	2,588,331
Total Nondepreciable	12,958,810	7,200,384	(676,969)	19,482,225
Capital Assets Being Depreciated				
Land improvements – depreciable	3,839,849	32,200	-	3,872,049
Infrastructure	16,419,142	-	-	16,419,142
Buildings	156,214,111	1,721,423	-	157,935,534
Leasehold Improvements	1,113,726	-	-	1,113,726
Equipment	23,441,275	3,786,996	(1,261,337)	25,966,934
Library books	4,434,922	481,922	(63,668)	4,853,176
Total Depreciable	205,463,025	6,022,541	(1,325,005)	210,160,561

Less Accumulated Depreciation				
Land improvements – depreciable	2,054,938	313,102	-	2,368,040
Infrastructure	2,197,493	547,305	-	2,744,798
Buildings	40,908,390	3,926,958	-	44,835,348
Leasehold Improvements	707,376	126,594	-	833,970
Equipment	15,695,450	1,934,843	(1,209,754)	16,420,539
Library Books	1,667,427	232,484	(63,416)	1,836,495
Total Accumulated Depreciation	63,231,074	7,081,286	(1,273,170)	69,039,190
Capital Assets Being Depreciated, Net	142,231,951	(1,058,745)	(51,835)	141,121,371
Total Capital Assets, Net	\$ 155,190,761	\$ 6,141,639	\$(728,804)	\$ 160,603,596

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

	<u>2008</u>	<u>2007</u>
Rental Income Property	\$ 8,722,499	\$ 9,108,358
Land	2,527,600	3,308,600
Total Capital Assets	\$ 11,250,099	\$ 12,416,958

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 University, pursuant to a Sublease Agreement dated as of August 1, 2004. The MBA 2004A&B Bonds were issued for the purpose of (i) refunding all of the Authority's outstanding 1999 Bonds; (ii) financing the acquisition and construction of a baseball stadium and related improvements; (iii) satisfying a reserve fund requirement; and (iv) paying the costs associated with the issuance of the 2004 Bonds.

The State Board of Regents of the State of Utah issued Student Center Building Fee and Unified System Revenue Refunding Bonds, Series 2004A, in the amount of

\$11,020,000, and Student Center Building Fee and Unified System Revenue Refunding Bonds, (Federally Taxable) Series 2004B, in the amount of \$4,035,000 for and on behalf of the University on August 3, 2004. The SBR 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.

Bonds payable at June 30, 2008 consisted of the following:

Description	Original Issue	Balance June 30, 2008	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	\$ 3,345,000	\$ 205,000
Less Discount	(16,666)	(12,499)	(1,042)
Total Net MBA 2004A	3,883,334	3,332,501	203,958
MBA 2004B Lease Revenue Refunding Bonds, due in annual installments through 2014, interest rates 3.0% to 4.2%	2,600,000	1,750,000	220,000
Plus Premium	37,378	23,786	3,398
Less Deferred Amount on Refunding	(286,406)	(176,966)	(27,942)
Total Net MBA 2004B	2,350,972	1,596,820	195,456
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	7,850,000	830,000
Plus Premium	105,719	80,844	6,219
Less Deferred Amount of Refunding	(1,097,895)	(833,275)	(67,563)
Total Net SBR 2004A	10,027,824	7,097,569	768,656
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	1,600,000	675,000
Plus Premium	119,799	59,899	14,975
Less Deferred Amount of Refunding	(172,564)	(79,340)	(23,802)
Total Net SBR 2004B	3,982,235	1,580,559	666,173
Total Net Bonds	\$ 20,244,365	\$ 13,607,449	\$ 1,834,243

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 University 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 2008 and the bond payments due in fiscal year 2009:

Pledged Revenues	
Building Fee – Spring	\$ 1,088,663
Building Fee – Summer	345,127
Building Fee – Fall	1,146,652
Total Building Fees	<u>2,580,442</u>
HUD Subsidy	34,580
Net Auxiliary Profits	436,691
Investment Income	2,726
Total Other Income	<u>473,997</u>
Total Pledged Revenues	<u>3,054,439</u>
Principal and Interest Payments	
SBR 2004A&B Bonds	1,854,788
MBA 2004A&B Bonds	671,577
Total Principal and Interest Payments	<u>2,526,365</u>
Pledged Revenues in Excess of Payments	528,074
Pledged Revenues in Excess of 110%	\$ 275,437

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, 2008, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,170,000	353,882	2,523,882
2013	795,000	289,633	1,084,633
2014-2018	3,675,000	905,799	4,580,799
2019-2021	1,890,000	123,420	2,013,420
Total	\$ 14,545,000	\$ 3,230,881	\$ 17,775,881

In prior years, the University 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 University's financial statements. At June 30, 2008, \$ 9,360,000 of bonds outstanding are considered defeased.

Note 10 Operating Leases

The University leases airport facilities and land under non-cancelable operating leases. Total costs for such leases were \$36,568 for the year ended June 30, 2008. 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
2009	\$ 36,568
2010	36,746
2011	38,716
2012	38,715
2013	38,716
2014-2018	200,201
2019-2023	210,497
2024-2028	133,546
2029-2030	27,649
Total Future Minimum Lease Payments	\$ 761,354

Note 11 Capital Lease Obligations

The University has acquired certain equipment under various lease-purchase contracts or other capital lease agreements. The cost of University assets held under capital leases totaled \$14,316,372 as of June 30, 2008. Accumulated depreciation of leased equipment totaled \$2,386,834 at June 30, 2008.

The assets acquired through capital leases are as follows:

Aircraft	\$ 2,292,240
Less: Accumulated Depreciation	(621,973)
Platesetter	84,923
Less: Accumulated Depreciation	(27,006)
Airport Hangers	1,113,726
Less: Accumulated Depreciation	(833,970)
Police Vehicles	101,748
Less: Accumulated Depreciation	(10,730)
ESCO Energy Savings Projects	10,723,735
Less: Accumulated Depreciation	(893,155)
Total Net Capital Lease Assets	<u><u>\$ 11,929,538</u></u>

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, 2008.

Fiscal Year Ending June 30	Capital Leases
2009	\$ 993,189
2010	968,075
2011	948,917
2012	947,631
2013	960,036
2014-2018	4,295,105
2019-2023	4,609,757
2024	472,978
Total Future Minimum Lease Payments	14,195,688
Amounts Representing Interest	(4,152,302)
Present Value of Net Minimum Lease Payments	<u><u>\$ 10,043,386</u></u>

Note 12 Early Retirement Liability

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

Benefits are payable for five years or until the retiree reaches age 65, whichever occurs first. The benefits include a 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, 2008, 24 employees participated in the early retirement plan, of which 19 retirees received medical and dental insurance benefits and 22 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 2.62% and 6.50% 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 4.4% 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, 2008, the expenses for the 20 percent incentive stipend were \$205,942 and the expenses for medical and dental insurance were \$160,292.

Note 13 Changes in Noncurrent Liabilities

The following is a summary of the changes to the University's noncurrent liabilities during the fiscal year ended June 30, 2008.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue Bonds	\$16,395,000	\$ -	\$(1,850,000)	\$14,545,000	\$1,930,000
Less deferred amounts, discounts, and premiums	(1,033,307)	-	95,756	(937,551)	(95,757)
Total Bonds payable	15,361,693	-	(1,754,244)	13,607,449	1,834,243
Capital Leases	10,432,545	87,856	(477,015)	10,043,386	526,395
Total Bonds and Capital Leases	25,794,238	87,856	(2,231,259)	23,650,835	2,360,638
Note Payable – Related Party	800,000	-	(200,000)	600,000	200,000
Early Retirement	995,197	753,839	(366,614)	1,382,422	436,656
Compensated Absences	3,144,771	2,330,819	(1,974,570)	3,501,020	896,374
Total	\$30,734,206	\$3,172,514	\$(4,772,443)	\$29,134,277	\$3,893,668

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

	<u>2008</u>	<u>2007</u>
Notes Payable	\$1,205,328	\$1,360,111
Deferred annuity payments	571,392	611,206
Prepaid rental income	<u>906,294</u>	<u>435,226</u>
Total liabilities	<u>\$2,683,014</u>	<u>\$2,406,543</u>

Note 14 Pension Plans and Retirement Benefits

Plan Description

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

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

Funding Policy

Plan members in the State and School Contributory Retirement System are required to contribute 6.00 percent of their annual covered salary (all or part may be paid by the employer for the employee) and the University is required to contribute 9.73 percent of their annual covered salary. In the State and School Noncontributory Retirement System, the University is required to contribute 14.22 percent (with an additional 1.5% to a 401(k)) of their annual covered salary. The contribution rates are actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The University contributions to the Systems were:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
State and School Contributory Retirement System	\$ 198,408	\$ 217,122	\$ 214,037
Noncontributory Retirement System	\$ 2,729,565	\$ 2,601,113	\$ 2,442,390
401(k) Plan	\$ 287,931	\$ 274,383	\$ 273,820

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, 2008, the University's contribution to this defined contribution plan was 14.2 percent of the employee's eligible annual salary or \$6,269,287. The University has no further liability once annual contributions are made.

Note 15 Risk Management

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

Note 16 Self-Insurance for Employee Health and Dental Care

As of July 1, 2006 the University established a self-insurance fund for employee health and dental care costs thus assuming full risk of loss. The University has established a reserve fund from which claims are paid. Educators Mutual Insurance Association of Utah has been contracted with by the University to provide certain administrative and management services such as the evaluation and payment of claims. 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 estimated 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 for the past year are as follows:

	2008
Estimated claims liability – beginning of year	\$ 1,488,967
Current year claims and changes in estimates	14,176,680
Claim payments and administrative expenses	<u>13,659,083</u>
Estimated claims liability – end of year	<u>\$ 2,006,564</u>

Note 17 Commitments and Contingent Liabilities

The University, 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 University's campus. The Agreement provides that the title to the Center be held by the University and neither the County nor any other party may obtain any property interest in the land or the facility. The agreement also provides that in consideration of the financial contribution made by the County, at least 40 percent of the usage of the Center be for public and/or community use. The investment in the Center and the operating results are accounted for in the University's financial statements. There are no separately issued financial statements for this joint venture.

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

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

As of June 30, 2008, the University had the following outstanding commitments to DFCM for various projects.

Learning Resource Center Remodel	\$ 3,370,266
Wasatch Campus Shell Space Build-out	21,761
Digital Learning Center	299,108
UCAS Charter School	640,685
Retention Basin	2,074
Noorda Children's Theater Addition	1,748,778
Browning Administration Building Remodel	214,697
Student Center Infill and Dock Improvements	<u>378,200</u>
Total	<u>\$ 6,675,569</u>

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

Note 18 Related Party Transactions

The University entered into various agreements involving the Foundation:

- A. The University leases four buildings from the Foundation under cancelable operating leases and a non-cancelable capital lease. Three of the building leases expire December 2013 and the fourth building lease expires June 2027. The lease agreements call for fixed payments that in substance provide adequate cash flows to service the debt on the buildings and provide a return of the Foundation's investment in the buildings.

The future minimum annual payments to be paid under the lease agreements for the next five years ending June 30 are \$661,338.

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.

The University made certain improvements and payments totaling \$485,179 for one of the buildings it leases from the Foundation. The amounts paid by the University are recorded as a liability (prepaid rental income) on the statements of financial position of the Foundation. The University has paid additional amounts in succeeding years. The balance on the financial statements of the Foundation and the University on June 30, 2008 and 2007 is \$906,294 and \$435,226, respectively. The prepaid amounts are amortized over the remaining life of the 15-year lease on the straight-line method.

- B. During the years ended June 30, 2008 and 2007, the Foundation had certain 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 for departments during the years ended June 30, 2008 and 2007 include 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.
- C. During the year ended June 30, 2007, the Foundation sold a parcel of land to the University. The sales price to the University was \$1,000,000 in the form of a note bearing interest at eight percent. The amount due at June 30, 2008 was \$600,000. The University will pay annual principal payments to the Foundation of \$200,000 each for fiscal years 2009, 2010, and 2011 plus accrued interest of \$48,000, \$32,000 and \$16,000, respectively.
- The Foundation originally paid \$1,200,000 for this parcel of land. The Foundation reported the additional \$200,000 value of the land as an expense during 2007 and the University reported the amount as gift revenue.
- D. The Foundation donated two parcels of land to the University during the year ended June 30, 2008 with appraised values totaling \$850,000.
- E. Subsequent to the year end the University entered into a cancelable operating lease on a building adjacent to campus. The lease carries a term of 15 years with semiannual payments of \$102,039.

Note 19 Restatement of Previously Reported Amounts

The University reported certain grants and contracts as operating revenues in prior years. In accordance with GASB Q & A Statement 34B-132 [amended 2007] the University has reported Pell Grants and like revenues as nonoperating revenues for the year ended June 30, 2008 and has made changes to previously reported amounts shown as comparative totals for 2007 as follows:

Statement of Revenues, Expenses, and Changes in Net Assets
Comparative Totals For the Year Ended June 30, 2007

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Change</u>
REVENUES			
Federal grants and contracts	\$ 27,431,275	\$ -	\$(27,431,275)
State grants and contracts	5,512,868	-	(5,512,868)
Private grants and contracts	53,078	-	(53,078)
NONOPERATING REVENUES (EXPENSES)			
Federal grants and contracts	-	27,431,275	27,431,275
State grants and contracts	-	5,512,868	5,512,868
Private grants and contracts	-	53,078	53,078

Note 20 Natural Classifications with Functional Classifications

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

Year Ended June 30, 2008

Natural Classification

Functional Classification	Compensation	Benefits	Financial Aid	Maintenance	General and Administrative	Auxiliary	Depreciation	Total
Instruction	\$ 43,201,555	\$ 16,776,263	\$ -	\$ 662,760	\$ 9,066,044	\$ -	\$ -	\$ 69,706,622
Academic Support	8,187,213	3,950,086	-	124,768	3,751,422	-	-	16,013,489
Student Services	9,928,643	4,609,489	-	137,369	3,843,409	-	-	18,518,910
Institutional Support	12,535,941	2,423,527	-	2,659,508	6,096,287	-	-	23,715,263
Operation and Maintenance of Plant	4,193,176	2,362,864	-	4,729,179	1,801,906	-	-	13,087,125
Student Financial Aid	1,577,470	47,615	15,692,558	-	-	-	-	17,317,643
Public Service	133,814	81,592	-	606	55,633	-	-	271,645
Auxiliaries	3,394,695	1,167,097	-	376,320	3,026,864	9,753,283	-	17,718,259
Depreciation	-	-	-	-	-	-	7,081,286	7,081,286
Total Expenses	\$83,152,507	\$31,418,533	\$15,692,558	\$8,690,510	\$27,641,565	\$9,753,283	\$ 7,081,286	\$183,430,242

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