UVU™

A COMPONENT UNIT
OF THE STATE OF UTAH

2012 ANNUAL FINANCIAL REPORT

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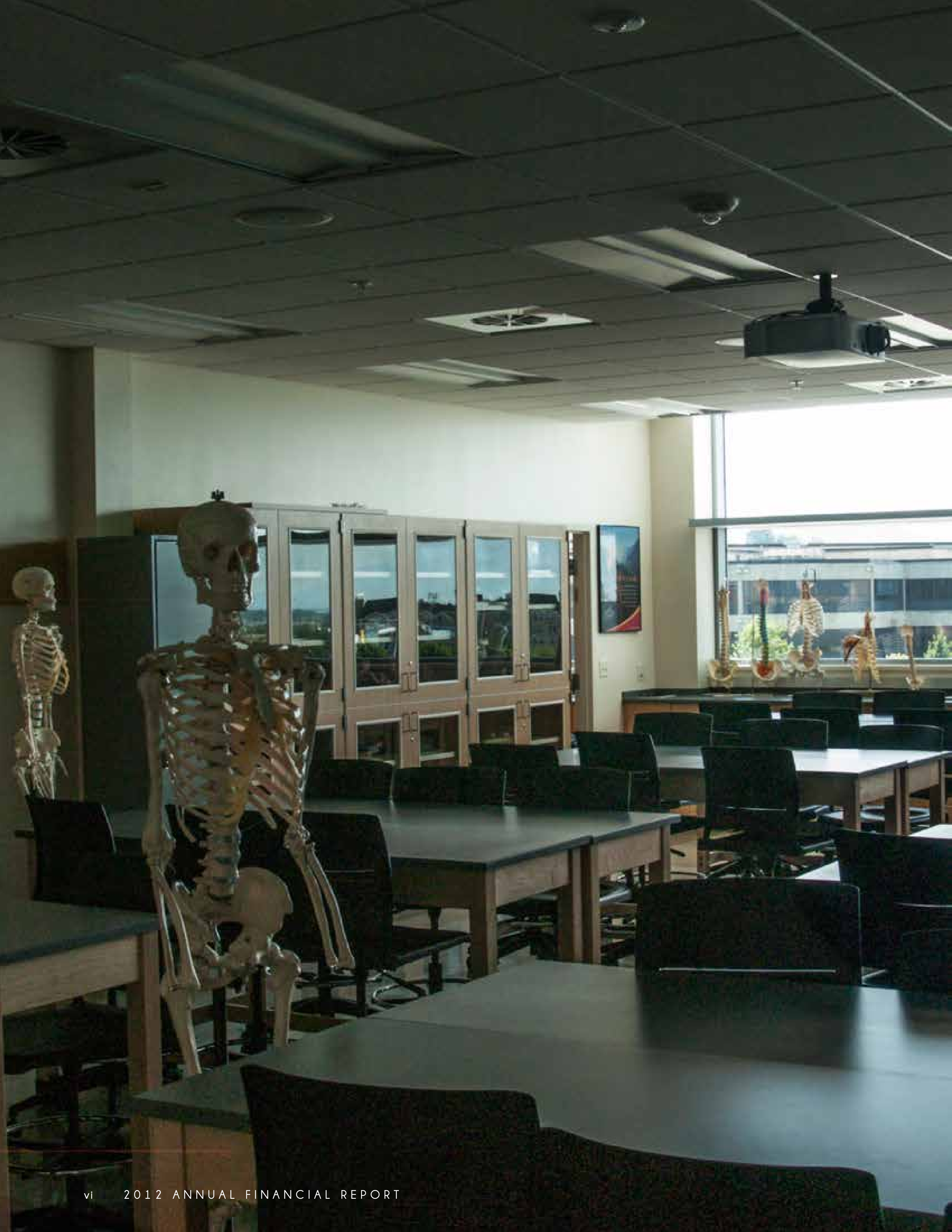


PRESIDENT'S MESSAGE

Utah Valley University has long been an institution focused on providing educational opportunities for the people of Utah Valley. Last year, our growth to over 30,000 students signaled that UVU was becoming a growing force in higher education throughout the state drawing thousands of students from outside of Utah County. This growth, combined with our focus on student success has made UVU an indispensable institution of learning, job preparation, and life skills development.

Since the move to university status nearly five years ago, UVU has improved its educational excellence and quality while holding on to the important access and community college functions we hold dear. One example of this balance is the Structured Enrollment program we implemented this past year, with new enrollment benchmark minimums of a 2.5 GPA and a 19 on the ACT. Students who apply to UVU and do not meet such requirements are still admitted, but are then led through a series of structured steps and classes to better prepare for the rigors of college. Students who do meet these minimum qualifications are free to enter on a traditional college path. This new policy, combined with an earlier admissions deadline, and other policies requiring students to pay tuition before school begins, caused a slight dip in enrollment this past year. We have learned from early data, however, that the students who have entered under these new policies have begun their educational pursuits on a more solid foundation and quality footing.

In addition to these internal changes, UVU, like many other Utah institutions, is facing the impact of the missionary age announcement from the Church of Jesus Christ of Latter-day Saints (LDS). This means that young men can now begin missionary service at age 18 instead of 19 and young women can begin at age 19 instead of 21. A high percentage of UVU students and community members self-identify as members of the LDS church and many have already chosen to serve a mission before starting or continuing with their education. Even as we anticipate some distinct benefits associated with young students coming back and starting their academic career on a more mature and disciplined plane, we note that this change is already presenting some very significant short-term challenges—most notably, a decrease in enrollment. Utah Valley University administration is working with committees across the campus to address the potential base budget shortfall of $7-10 million due to the combined enrollment declines for this year and next. During this legislative season, we remain relentless in pursuing a new classroom building, equity funding, mission-based funding, and funding associated with the Governor's Big Goal to have 66% of the adult population with some form of postsecondary certificate by the year 2020. We are also aggressively pursing private resources and student recruitment to counter this potential shortfall.

Even as I find myself deeply sobered by some immediate hurdles we face, I have never been more excited about UVU's future or been better able to envision a clear path to our best ambitions. Our overall growth trajectory is strong. We are improving in efficiencies and technology at every turn. And we are constantly seeking ways to ramp up the quality of the student experience, while remaining a broad access point for so many who need education the most.

Sincerely,

Matthew S. Holland
President

UVU™

STATE OF UTAH
OFFICE OF THE STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Utah Valley University (the University) and its discretely presented component unit foundation, which collectively comprise the University's basic financial statements, as of and for the year ended June 30, 2012, 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.

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 previously 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, 2012 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.

Utah State Capitol Complex, East Office Building, Suite E310 • P.O. Box 142310 • Salt Lake City, Utah 84114-2310 • Tel: (801) 538-1025 • Fax: (801) 538-1383

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Utah State Auditor's Office

Utah State Auditor's Office
January 23, 2013

MANAGEMENT'S DISCUSSION & ANALYSIS

Introduction

The following discussion and analysis provides an overview of the financial position and results of activities of Utah Valley University (the University) for the year ended June 30, 2012, with comparative information for the year ended June 30, 2011. This discussion is prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow these sections.

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

Financial Highlights

- The University's net assets increased by $55.0 million during the fiscal year.
- $55.3 in new bonds were issued for the construction of a new student center.
- Grants and contracts decreased by $3.39 million during the fiscal year.
- State appropriations increased by $4.80 million during the fiscal year.
- Enrollment increased by 1.40% in total headcount and 0.06% in full time equivalents.

Overview of the Financial Statements and Financial Analysis

The financial statements are prepared in accordance with Governmental Accounting Standards Board principles. Three financial statements are presented: the Statement of Net 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

	June 30, 2012	June 30, 2011	Change	% Change
ASSETS				
Current assets	$ 105,876,506	$ 104,858,195	$ 1,018,311	1.0%
Noncurrent assets	58,732,820	3,753,689	54,979,131	1,464.7%
Capital assets, net	271,265,215	219,580,057	51,685,158	23.5%
Total assets	**435,874,541**	**328,191,941**	**107,682,600**	**32.8%**
LIABILITIES				
Current liabilities	23,393,173	24,275,683	(882,510)	(3.6%)
Noncurrent liabilities	77,242,624	23,726,733	53,515,891	225.6%
Total liabilities	**100,635,797**	**48,002,416**	**52,633,381**	**109.6%**
NET ASSETS				
Invested in capital assets, net of debt	253,733,321	202,147,854	51,585,467	25.5%
Restricted expendable	10,523,690	8,306,691	2,216,999	26.7%
Unrestricted	70,981,733	69,734,980	1,246,753	1.8%
Total net assets	**$ 335,238,744**	**$ 280,189,525**	**$ 55,049,219**	**19.6%**

The increase in current assets held by the University of $1.0 million is mainly due to an increase of $1.0 million in prepaid expenses related to bonds issued during the year.

The increase of $55.0 million in noncurrent assets is due to issuing bonds near year end. The cash received from issuing the bonds will be used to build the new student life and health building. This also explains the $53.5 million increase in noncurrent liabilities. There were also payments made toward bonds, leases, and notes owed by the University.

The University made various capital asset additions during fiscal year 2012. The most significant addition was the new science building at a cost of $36.5 million. A number of other building additions and remodels were made and various pieces of equipment were purchased and some capital assets were disposed of during the year. The net cost of capital asset increases and decreases totaled $61.1 million. This net increase in capital assets was offset by net depreciation expense of $9.4 million, which nets to an increase in capital assets of $51.7 million.

Statement of Revenues, Expenses, and Changes in Net Assets

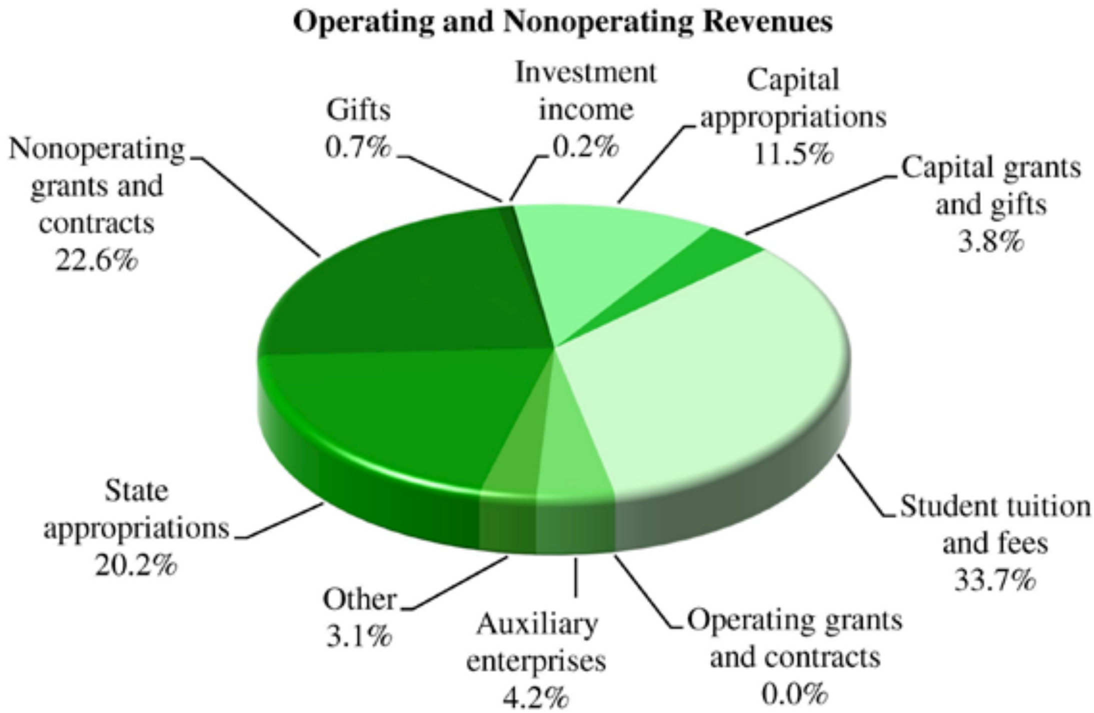
Changes in total net assets, as presented on the Statement of Net Assets, are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the operating and nonoperating revenues received by the University, the operating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

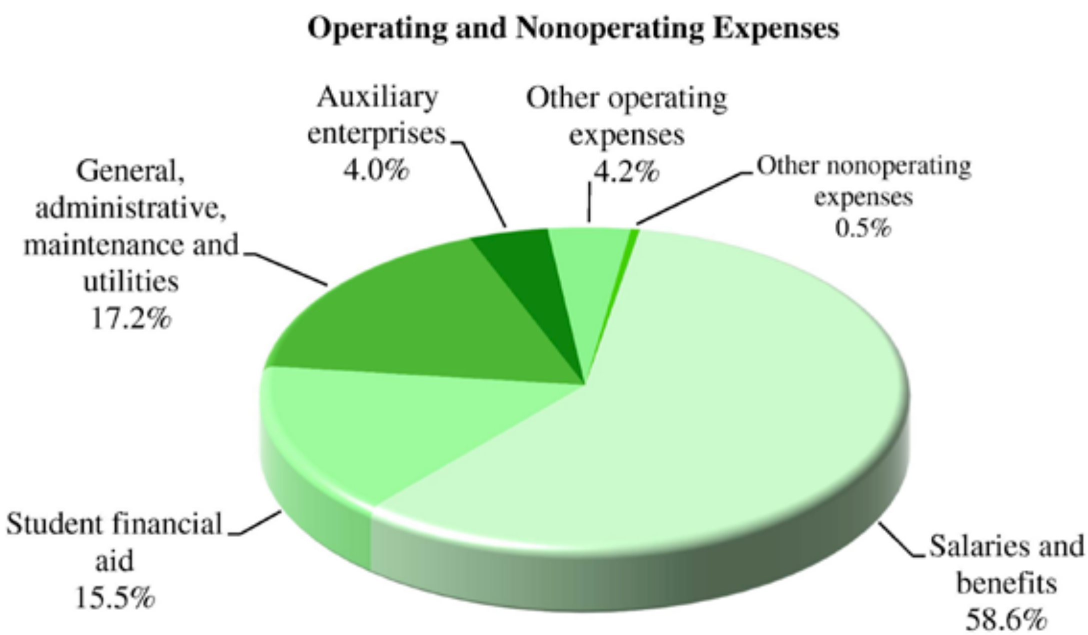
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are expenses paid to acquire or produce the goods and services provided in return for operating revenues and to carry out the mission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

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

	June 30, 2012	June 30, 2011	Change	% Change
REVENUES				
Operating revenues				
Student tuition and fees	$ 107,677,399	$ 97,757,481	$ 9,919,918	10.1%
Grants and contracts	9,995	16,680	(6,685)	(40.1%)
Auxiliary enterprises	13,504,015	15,159,584	(1,655,569)	(10.9%)
Other	9,872,572	9,811,430	61,142	0.6%
Total operating revenues	**131,063,981**	**122,745,175**	**8,318,806**	**6.8%**
EXPENSES				
Operating expenses				
Salaries and benefits	155,100,169	143,340,652	11,759,517	8.2%
Student financial aid	41,076,911	43,496,342	(2,419,431)	(5.6%)
General and administrative, maintenance and utilities	45,413,919	39,693,252	5,720,667	14.4%
Auxiliary enterprises	10,715,065	11,597,348	(882,283)	(7.6%)
Other	11,191,332	10,635,480	555,852	5.2%
Total operating expenses	263,497,396	248,763,074	14,734,322	5.9%
Operating loss	**(132,433,415)**	**(126,017,899)**	**(6,415,516)**	**5.1%**
NONOPERATING REVENUES (EXPENSES)				
State appropriations	64,588,149	59,780,862	4,807,287	8.0%
Grants and contracts	72,182,811	76,126,464	(3,943,653)	(5.2%)
Gifts	2,256,204	2,613,472	(357,268)	(13.7%)
Investment income	690,466	505,672	184,794	36.5%
Other nonoperating revenues (expenses)	(1,194,059)	(1,227,477)	33,418	(2.7%)
Net nonoperating revenues	138,523,571	137,798,993	724,578	**0.5%**
Income before other revenues	**6,090,156**	**11,781,094**	**(5,690,938)**	**(48.3%)**
Capital appropriations	36,653,518	-	36,653,518	-
Capital grants and gifts	12,305,545	4,068,119	8,237,426	202.5%
Other revenues	48,959,063	4,068,119	44,890,944	1,103.5%
Increase in net assets	**55,049,219**	**15,849,213**	**39,200,006**	**247.3%**
Net assets – beginning	280,189,525	264,340,312	15,849,213	6.0%
Net assets - ending	**$ 335,238,744**	**$ 280,189,525**	**$ 55,049,219**	**19.6%**

The following graphs illustrate operating and nonoperating revenues and expenses as a percent of the total for the year ended June 30, 2012.





The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in net assets of $55.0 million. Operating revenues increased $8.3 million. Tuition and fees accounted for a significant portion of that increase with a $9.9 million increase over the prior reporting period due mainly to an overall increase in tuition rates of 6.9%. Also, attributing to the increase was student full-time equivalents increased slightly by 0.6%.

Auxiliary enterprises revenue decreased by $1.7 million for a variety of reasons. There was a decrease of $0.3 million in rental of the UCCU events center, a $0.5 million decrease in used book sales, a $0.6 million decrease in computer sales, and $0.3 million decrease in food sales.

Nonoperating grants and contracts decreased by $3.9 million due mainly to a decrease in federal funding. Several federal grants ended during the year. The decrease in federal funding was offset by an increase in State grants and contracts. The University received award increases for several grants and also received some one-time money.

Capital appropriations increased $36.7 million to due to the completion of the new science building. Upon completion, the State transferred the building to the University.

Capital grants and gifts increased by $8.2 million due mainly to the donation of property to the University, which was part of a land purchase.

Operating expenses increased by $14.7 million. The majority of the increase was due to increases in salaries and benefits. Salaries and benefits increased by $11.8 million due to an increased need for instructors to meet the demands of increased enrollment as well as equity and retention increases. Due to accreditation requirements, many full-time instructors were hired to replace adjunct professors. The increase occurred in benefits due to the increase in salaries which subsequently increased the amount of taxes and retirement contributions paid by the University. The University also saw an increase in the amount of medical claims paid under the University's self-funded medical and dental insurance plan.

Student financial aid decreased by $2.4 million or 5.6%. Total aid and waivers awarded decreased by $1.2 million due to decreases in federal and state financial awards. The adjustment for scholarship discounts and allowances increased from $29.4 million to $30.6 million, thus reducing the total amount of aid reported by $1.2 million.

General and administrative, and maintenance and utilities expenses saw an overall increase of $5.7 million or 14.4%. Accounting for that change were increases in computer and software purchases, office furniture purchases, and instructional equipment and supplies.

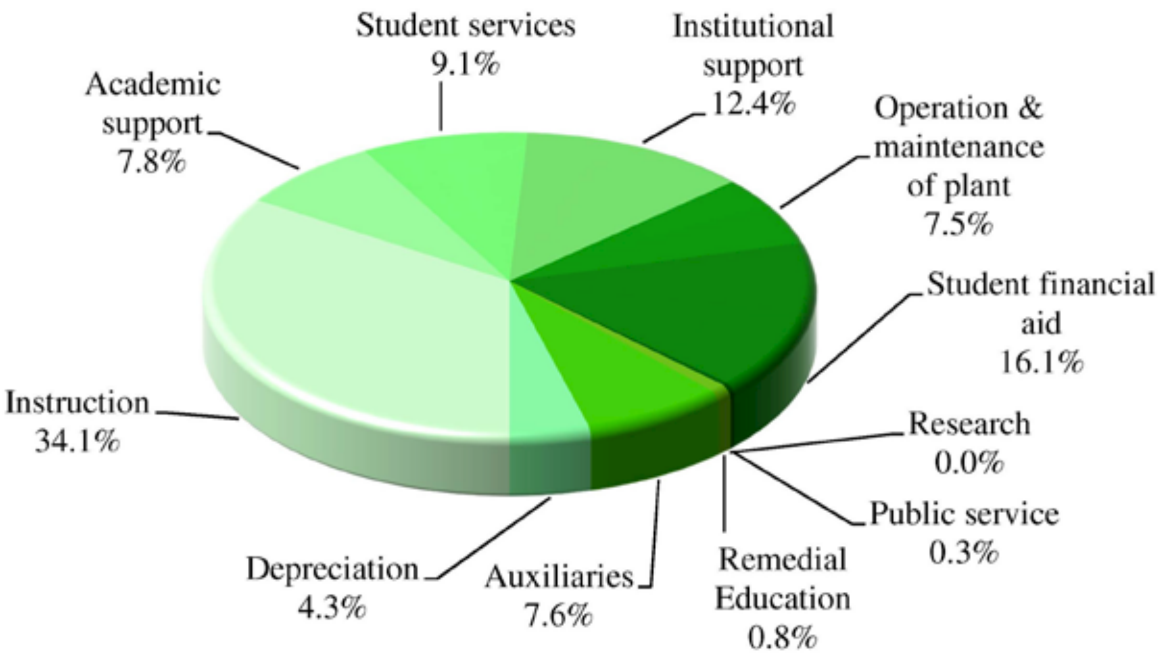
Total nonoperating revenues and expenses increased by $0.7 million or 0.5%. Most of this increase was due to state appropriations increasing by $4.8 million and a decrease in grants and contracts of $3.9 million.

The following is a summary of the University's expenses by programmatic (functional) classification for the years ended June 30, 2012, and 2011:

	June 30, 2012	June 30, 2011	Change	% Change
Operating Expenses				
Instruction	$ 89,838,842	$ 86,149,994	$ 3,688,848	4.3%
Academic support	20,623,841	20,260,693	363,148	1.8%
Student services	23,837,416	23,183,835	653,581	2.8%
Institutional support	32,781,827	27,639,169	5,142,658	18.6%
Operation & maintenance of plant	19,807,197	14,515,334	5,291,863	36.5%
Student financial aid	42,278,327	45,003,847	(2,725,520)	(6.1%)
Public service	790,157	396,328	393,829	99.4%
Research	52,416	10,275	42,141	410.1%
Remedial Education	2,211,471	127,525	2,083,946	1,634.1%
Auxiliaries	20,084,570	20,840,594	(756,024)	(3.6%)
Depreciation	11,191,332	10,635,480	555,852	5.2%
Total Operating Expenses	**$ 263,497,396**	**$ 248,763,074**	**$ 14,734,322**	**5.9%**

The following graph illustrates functional operating expenses as a percent of the total for the year ended June 30, 2012.

Functional Operating Expenses



The $3.7 million increase in instruction related costs are due to an increase of $4.5 million in salaries and benefits. Costs associated with academic support increased from the prior year with an increase of $0.4 million or 1.8%. The increase was due primarily to an increase of $1.1 million in salaries and benefits and $0.7 million increase in general and administrative costs.

Costs related to institutional support saw an increase of $5.1 million of which $3.2 million of the increase is related to salary and benefit increases with an increase in general and administrative costs of $1.8 million.

Operation and maintenance of plant expenditures increased $5.3 million due to general and administrative costs increasing by $2.5 million and maintenance costs increasing by $2.4 million.

The functional expense of student financial aid decreased by $2.7 million. As explained previously, the decrease is due mostly to a decrease in financial aid awards.

Remedial Education saw an increase of $2.1 million which was primarily due to an increase in salaries and benefits. The University has made significant efforts to ensure students who enter school have the skills necessary to be successful and the increase in salaries and benefits are directly related to that effort.

Auxiliaries experienced a decrease in expenses of $0.8 million due mostly to a decrease in cost of goods sold of $0.9 million. As the University leases space for outside restaurants, the amount of goods purchased for food operations decreases.

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	June 30, 2012	June 30, 2011	Change	% Change
Cash provided (used) by:				
Operating activities	$ (122,500,097)	$ (113,103,562)	$ (9,396,535)	8.3%
Noncapital financing activities	132,741,454	140,027,020	(7,285,566)	(5.2%)
Capital and related financing activities	39,934,111	(12,638,519)	52,572,630	(416.0%)
Investing activities	690,556	1,793,038	(1,102,482)	(61.5%)
Change in cash	50,866,024	16,077,977	34,788,047	216.4%
Cash - beginning of year	97,032,649	80,954,672	16,077,977	19.9%
Cash – end of year	**$ 147,898,673**	**$ 97,032,649**	**$ 50,866,024**	**52.4%**

The University's cash increased by $50.9 million due mainly to an increase in cash provided by capital and related financing activities of $52.6 million. The increase in cash provided by capital and related financing activities of $52.6 million over the prior year is due to cash received as part of issuing debt. The increase of $9.4 million in cash used for operating activities is due primarily to an increase in payments made for employee compensation and benefits ($13.1 million) and to vendors for goods and services ($3.0 million) with an offsetting increase in student tuition collected of $6.8 million. The decrease of $7.3 million in cash provided for noncapital financing activities is due mainly to the decrease in federal funding of $8.4 million with an offsetting increase in cash provided by State appropriations of $1.4 million.

Outlook

The University's overall financial position is strong and in spite of the current economic conditions the outlook for the future looks bright. The economy of the State of Utah has weathered the recent economic struggles better than most states but it is not without its own challenges. The State is expecting the economy to gradually strengthen during 2013. State appropriations for higher education are expected to remain at 2012 levels during this economic recovery period.

The University is projecting a 10 percent reduction in enrollment in the next two years. The reduction in students is a result of many high school graduates taking time off from school to perform missionary service for the Church of Jesus Christ of Latter-day Saints, the dominant religion in the area. The Church recently changed their rules and reduced the age of missionary service from age 19 to 18 for men and from 21 to 19 for women. The University is still predicting growth over the next ten years, and the University is making every effort to meet the challenges related to growth, while continuing to preserve the standards of excellence and maintaining its commitment to engaged learning.

The University will continue to take a conservative approach to acquiring debt for construction and expansion of facilities. Construction of the new Science building was completed in the fall of 2012 and in 2012 the University began constructing a new Student Life and Health building. The new student center will be 170,000 square feet and, along with a 153,000 new square foot parking structure, will cost approximately $49.2 million.

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

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012

	Primary Institution UVU	Component Unit UVU Foundation	Total
ASSETS			
Current assets			
Cash and cash equivalents	$ 93,329,102	$ 480,053	$ 93,809,155
Accounts receivable, net	3,978,687	-	3,978,687
Accounts receivable - state agency	3,183,324	-	3,183,324
Notes receivable - related party	-	188,146	188,146
Notes and pledges receivable, net	206,422	4,127,047	4,333,469
Prepaid expenses - related party	396,011	-	396,011
Prepaid expenses, deferred charges	905,990	10,163	916,153
Inventories	3,876,970	-	3,876,970
Total current assets	105,876,506	4,805,409	110,681,915
Noncurrent assets			
Restricted Cash and cash equivalents	54,569,571	-	54,569,571
Restricted investments	-	26,142,516	26,142,516
Accounts receivable, net	2,794,003	-	2,794,003
Notes receivable - related party	-	4,551,099	4,551,099
Notes and pledges receivable, net	1,369,246	5,072,128	6,441,374
Other long term assets	-	3,576,765	3,576,765
Non depreciable capital assets	43,894,488	-	43,894,488
Depreciable capital assets, net	227,370,727	3,953,764	231,324,491
Total noncurrent assets	329,998,035	43,296,272	373,294,307
Total assets	**435,874,541**	**48,101,681**	**483,976,222**
LIABILITIES			
Current liabilities			
Accounts payable	2,896,534	-	2,896,534
Accounts payable - state agency	1,675,968	-	1,675,968
Accounts payable - related party	101,151	-	101,151
Accrued liabilities	5,627,542	-	5,627,542
Accrued liabilities - state agency	603,113	-	603,113
Other liabilities	803,541	-	803,541
Deferred revenue	8,701,049	-	8,701,049
Current portion of notes - related party	188,146	-	188,146
Current portion of bonds, notes, and capital leases	2,284,831	20,721	2,305,552
Funds held for others	511,298	-	511,298
Total current liabilities	23,393,173	20,721	23,413,894
Noncurrent liabilities			
Accrued liabilities	3,195,127	418,653	3,613,780
Deferred revenue	3,459,468	-	3,459,468
Deferred revenue - state agency	177,661	-	177,661
Notes - related party	4,449,948	-	4,449,948
Bonds, notes, and capital leases	65,960,420	-	65,960,420
Total noncurrent liabilities	77,242,624	418,653	77,661,277
Total liabilities	**100,635,797**	**439,374**	**101,075,171**
NET ASSETS			
Invested in capital assets, net of related debt	253,733,321	3,933,043	257,666,364
Restricted for:			
Nonexpendable			
Scholarships	-	15,252,808	15,252,808
Expendable			
Scholarships and grants	2,353,701	26,637,242	28,990,943
U. S. government grants, refundable	1,744,909	-	1,744,909
Loans	726,833	-	726,833
Capital projects	5,369,258	-	5,369,258
Debt service	328,989	-	328,989
Unrestricted	70,981,733	1,839,214	72,820,947
Total net assets	**$ 335,238,744**	**$ 47,662,307**	**$ 382,901,051**

The accompanying notes are an integral part of the Financial Statements

STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Primary Institution UVU	Component Unit UVU Foundation	Total
REVENUES			
Operating revenues			
Student tuition and fees (net of allowances of $28,633,192)	$ 107,677,399	$ -	$ 107,677,399
Private grants and contracts	9,995	-	9,995
Sales and services of education departments	5,348,178	-	5,348,178
Auxiliary enterprises (net of scholarship allowances of $2,365,394)	13,504,015	-	13,504,015
Other operating revenues	4,524,394	-	4,524,394
Total operating revenues	131,063,981	-	131,063,981
EXPENSES			
Operating expenses			
Salaries	112,034,399	-	112,034,399
Fringe benefits	43,065,770	-	43,065,770
Student financial aid	41,076,911	1,462,749	42,539,660
Maintenance and utilities	10,759,542	-	10,759,542
General and administrative	34,654,377	13,552,003	48,206,380
Cost of goods sold - auxiliary enterprises	10,715,065	-	10,715,065
Depreciation	11,191,332	-	11,191,332
Total operating expenses	263,497,396	15,014,752	278,512,148
Operating loss	(132,433,415)	(15,014,752)	(147,448,167)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	64,588,149	-	64,588,149
Federal grants and contracts	65,532,998	-	65,532,998
State grants and contracts	6,649,813	-	6,649,813
Private grants and contracts	-	-	-
Gifts	2,256,204	14,899,478	17,155,682
Investment income (net of Foundation investment expense of $135,549)	690,466	1,405,377	2,095,843
Interest on capital asset-related debt	(1,097,361)	-	(1,097,361)
Other nonoperating expenses	(96,698)	5,929	(90,769)
Net nonoperating revenues (expenses)	138,523,571	16,310,784	154,834,355
Income before other revenues, expenses, gains, or losses	**6,090,156**	**1,296,032**	**7,386,188**
Capital appropriations	36,653,518	-	36,653,518
Gifts to endowments	-	804,626	804,626
Capital grants and gifts	12,305,545	-	12,305,545
Total other revenues	48,959,063	804,626	49,763,689
Increase in net assets	**55,049,219**	**2,100,658**	**57,149,877**
NET ASSETS			
Net assets--beginning of year	280,189,525	45,561,649	325,751,174
Net assets--end of year	**$ 335,238,744**	**$ 47,662,307**	**$ 382,901,051**

The accompanying notes are an integral part of the Financial Statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	Primary Institution UVU
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tuition and fees	$ 106,699,424
Receipts from grants and contracts	9,995
Receipts from auxiliary and educational sales and services	18,365,211
Collection of loans to students	194,216
Payments to suppliers	(54,778,691)
Payments for employee services and benefits	(156,387,973)
Payments for student aid: scholarships and fellowships	(41,076,956)
Loans issued to students	(183,000)
Other operating payments	(250,904)
Other operating receipts	4,908,581
Net cash used by operating activities	**(122,500,097)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	60,711,558
Federal, state and private grants and contracts	69,722,773
Gifts	2,307,123
Net cash provided by noncapital financing activities	**132,741,454**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital grants and gifts received	1,041,088
Capital appropriations	44,904
Purchases of capital assets	(15,590,088)
Principal paid on capital debt and leases	(3,230,198)
Interest paid on capital debt and leases	(907,362)
Proceeds from capital debt issued	58,575,767
Net cash provided by capital and related financing activities	**39,934,111**
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of interest on investments	690,556
Net cash provided by investing activities	**690,556**
Net increase in cash	50,866,024
Cash and cash equivalents - beginning of year	97,032,649
Cash and cash equivalents - end of year	**$ 147,898,673**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	**$ (132,433,415)**
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation expense	11,191,332
DFCM projects not capitalized	2,271,355
Changes in assets and liabilities	
Receivables, net	(1,521,440)
Inventories	(13,585)
Prepaid expenses, deferred charges	(962,780)
Accounts payable	201,530
Accrued liabilities	(993,126)
Deferred revenue	(11,845)
Funds held for others	(227,394)
Other liabilities	(729)
Net Cash Used by Operating Activities	**$ (122,500,097)**
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Donated library books	$ 57,132
Donated assets	10,707,325
Assets contributed by DFCM	36,653,518
Total Noncash Activities	**$ 47,417,975**

The accompanying notes are an integral part of the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

Basis of Accounting

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

Cash Equivalents

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

Investments

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

Capital Assets

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

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

Noncurrent Liabilities

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

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, investment income, and Pell Grants and like revenues.

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

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 educational and general operations of the University, and may be used for any purpose at the discretion of the governing board to meet current expenses. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

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 State of Utah Money Management Council.

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

Deposits

At June 30, 2012, the carrying amounts of the University's deposits and bank balances were $16,562,818 and $17,898,123, respectively. The bank balances of the University were fully insured by the Federal Deposit Insurance Corporation (FDIC) and the Temporary Liquidity Guarantee Program. All deposits were held by a qualified depository as defined by the State Money Management Act. The State of Utah does not require collateral on deposits.

Custodial Credit Risk

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

Investments

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

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

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

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

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Act, 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.

As of June 30, 2012, 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	$ 131,279,865	$ 131,279,865
Totals	**$ 131,279,865**	**$ 131,279,865**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act or the UPMIFA and Rule 541, as applicable. For non-endowment funds, Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270 days - 13 months 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, 2012, the University had investments and quality ratings as follows:

Investment Type	Fair Value	Quality Rating Unrated
State of Utah Public Treasurer's Investment Fund	$ 131,279,865	$ 131,279,865
Totals	**$ 131,279,865**	**$ 131,279,865**

Concentration of Credit Risk

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

Custodial Credit Risk

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

The Foundation

Deposits – The Foundation

The Foundation maintains its cash balances in the PTIF and in several financial institutions. The amount on deposit at June 30, 2012, in the PTIF account was $427,200 and was combined with the University's PTIF account. Although this amount is not covered by federal depository insurance nor guaranteed by the State, PTIF balances are secured by investments purchased in compliance with the Act, are unrated, and have an average maturity of less than one year. The total amount deposited in various other financial institutions at June 30, 2012, was $51,527, all of which was insured by the FDIC.

Custodial Credit Risk – The Foundation

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

Investments – The Foundation

As of June 30, 2012, 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
Mutual funds	$ 463,934	$ 452,050	$ 11,884	$ -	$ -
US government treasuries	3,255,215	9,055	1,847,663	949,185	449,312
Corporate bonds	5,432,540	3,946,601	939,852	546,087	-
Money market accounts	4,057,103	4,057,103	-	-	-
Certificates of deposits	568,252	1,363	566,889	-	-
Total	13,777,044	**$8,466,172**	**$ 3,366,288**	**$ 1,495,272**	**$ 449,312**
Common and preferred stocks	12,365,472				
Total	**$26,142,516**				

Interest Rate Risk – The Foundation

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

Credit Risk – The Foundation

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

At June 30, 2012, the Foundation's credit quality ratings for investments in debt securities were as follows:

Investment Type	Fair Value	Quality Rating AAA to A+	A	B	Unrated
Mutual funds	$ 463,934	$ -	$ -	$ -	$ 463,934
Corporate bonds	5,432,540	579,976	741,343	183,528	3,927,693
Money market accounts	4,057,103	-	-	-	4,057,103
Certificates of deposit	568,252	-	-	-	568,252
Totals	**$10,521,829**	**$ 579,976**	**$ 741,343**	**$ 183,528**	**$9,016,982**

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% 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, 2012:

Current accounts receivable, net	
Student tuition and fees	$ 2,688,509
Accrued interest	94,152
Operating activities	355,993
Auxiliary enterprises	946,399
Federal grants and contracts	1,149,505
Total	5,234,558
Less allowance for doubtful accounts	(1,255,871)
Total	3,978,687
Current accounts receivable-state agency	
Operating activities	1,424
Utah Department of Facilities Construction and Management	1,801,324
State grants and contracts	1,380,576
Total	3,183,324
Noncurrent accounts receivable, net	
Student tuition and fees	4,186,593
Accrued interest	905,633
Less allowance for doubtful accounts	(2,298,223)
Total	2,794,003
Total	**$ 9,956,014**

University notes and pledges receivable consisted of the following at June 30, 2012:

Current notes and pledges receivable, net	
Loans to students	$ 271,829
Less allowance for doubtful accounts	(65,407)
Total	206,422
Noncurrent notes and pledges receivable, net	
Loans to students	1,649,563
Less allowance for doubtful accounts	(280,317)
Total	1,369,246
Total	**$ 1,575,668**

Student loans made through the Federal Perkins Loan Program comprise substantially all of the notes receivable at June 30, 2012. Under this perpetual loan program, the Federal Government provided approximately 75% of the initial funds contributed to the program which in turn are issued as loans to students. The University provided a matching contribution to the fund of 25%. Under certain conditions, loans can be forgiven at annual rates of 10% to 30% of the balance up to maximums of 50% to 100% of the balance of the loan. The Federal Government reimburses the University a portion of amounts canceled under these provisions.

As the University determines that loans are uncollectible and not eligible to be forgiven by the Federal Government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans which in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2012, the allowance for uncollectible loans was $345,725.

NOTE 4. PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and deferred charges consisted of the following at June 30, 2012:

Prepaid expenses	
Utah department of Facilities	
Contstruction and Management	$ 396,011
Prepaid equipment	28,490
Deferred charges	
Bond issue costs	868,144
Franchise start-up costs	53,356
Credits due the Bookstore	(44,000)
Total	877,500
Total	**$1,302,001**

NOTE 5. INVENTORIES

Inventories at June 30, 2012 were as follows:

Auxiliary enterprises	$3,329,387
Supplies and other inventory	547,583
Total	**$3,876,970**

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

University accounts payable consisted of the following at June 30, 2012:

Current accounts payable		
Interest payable	$	154,577
Vendors payable		2,399,428
Federal grants		116,984
Employee deposits payable		225,545
Total		2,896,534
Current accounts payable-related party		
Interest payable		101,151
Current accounts payable-state agency		
State taxes payable		27,136
State grants and contracts		94,257
Utah Department of Facilities Construction and Management payable		1,554,575
Total accounts payable - state agency		1,675,968
Total	**$**	**4,673,653**

University accrued liabilities consisted of the following at June 30, 2012:

Current accrued liabilities	
Federal taxes payable	$ 88,196
Wages payable	492,741
Early retirement payable	363,091
Accrued leave payable	1,536,534
Medical and dental claims payable	2,478,779
Student reimbursements	31,742
Payroll liabilities	636,459
Total	5,627,542
Current accrued liabilities-state agency	
State taxes payable	389,238
Payroll liabilities	213,875
Total	603,113
Noncurrent accrued liabilities	
Early retirement payable	280,979
Accrued leave payable	2,914,148
Total	3,195,127
Total	**$ 9,425,782**

NOTE 7. DEFERRED REVENUE

Deferred revenue of the University consisted of the following at June 30, 2012:

Current deferred revenue	
Prepaid tuition and fees	$ 6,682,966
Grants and contracts	2,014,151
Auxiliary	3,932
Total	8,701,049
Noncurrent deferred revenue	
Federal program scholarships	3,459,468
Noncurrent deferred revenue-state agency	
Project repairs	177,661
Total	**$ 12,338,178**

NOTE 8. CAPITAL ASSETS

The following are the changes in capital assets of the University for the year ended June 30, 2012:

	Beginning Book Value	Increases	Decreases	Ending Book Value
Capital assets not being depreciated				
Land	$ 19,290,111	$ 15,000,295	$ -	$ 34,290,406
Land improvements- non depreciable	4,014,144	-	-	4,014,144
Works of art and historical treasures	644,398	707,325	-	1,351,723
Construction in process	4,168,368	7,779,892	(7,710,045)	4,238,215
Total not being depreciated	28,117,021	23,487,512	(7,710,045)	43,894,488
Capital assets being depreciated				
Land improvements – depreciable	6,327,450	1,156,558	-	7,484,008
Infrastructure	17,324,335	1,296,641	-	18,620,976
Buildings	217,773,016	41,702,515	-	259,475,531
Leasehold Improvements	1,632,882	-	-	1,632,882
Equipment	38,093,435	2,674,404	(1,746,412)	39,021,427
Library books	5,947,060	304,085	(48,233)	6,202,912
Total being depreciated	287,098,178	47,134,203	(1,794,645)	332,437,736
Less accumulated depreciation				
Land improvements – depreciable	(3,380,695)	(491,219)	-	(3,871,914)
Infrastructure	(4,429,849)	(593,643)	-	(5,023,492)
Buildings	(60,182,187)	(5,967,035)	-	(66,149,222)
Leasehold Improvements	(227,518)	(82,565)	-	(310,083)
Equipment	(24,896,898)	(3,762,015)	1,711,233	(26,947,680)
Library Books	(2,517,995)	(294,855)	48,232	(2,764,618)
Total accumulated depreciation	(95,635,142)	(11,191,332)	1,759,465	(105,067,009)
Total depreciable capital assets, net	191,463,036	35,942,871	(35,180)	227,370,727
Total capital assets, net	**$ 219,580,057**	**$ 59,430,383**	**$ (7,745,225)**	**$ 271,265,215**

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

	2012	2011
Capital assets not being depreciated		
Land	$ -	$ 59,000
Capital assets being depreciated		
Rental income property	3,953,764	4,213,455
Total	**$3,953,764**	**$4,272,455**

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, 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. The SBR 2004A Bonds were issued for the purpose of (i) refunding all of the State Board of 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 State Board of Regents of the State of Utah issued Student Center Building Fee and Unified System Revenue Bonds, Series 2012A, in the amount of $49,250,000. The SBR 2012A Bonds were issued for the purpose of (i) financing the acquisition and construction of a Student Life and Wellness building and a parking structure; (ii) satisfying a reserve fund requirement; (iii) paying capitalized interest; and (iv) paying the costs associated with the issuance of the 2012A Bonds.

Bonds payable at June 30, 2012 consisted of the following:

Description	Original Issue	Balance June 30, 2012	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	$ 2,470,000	$ 250,000
Less discount	(16,666)	(8,333)	(1,042)
Total net MBA 2004A	3,883,334	2,461,667	248,958
MBA 2004B Lease Revenue Refunding Bonds, due in annual installments through 2014, interest rates 3.75% to 4.2%	2,600,000	810,000	260,000
Plus premium	37,378	10,194	3,398
Less deferred amount on refunding	(286,406)	(65,198)	(27,942)
Total net MBA 2004B	2,350,972	754,996	235,456
SBR 2004A Student Center Building Fee and Unified System Revenue Refunding Bonds, due in annual installments through 2020, interest rates 4.0% to 4.5%	11,020,000	3,080,000	285,000
Plus premium	105,719	55,968	6,219
Less deferred amount of refunding	(1,097,895)	(563,023)	(67,563)
Total net SBR 2004A	10,027,824	2,572,945	223,656
UVU 2012A Student Center Building Fee and Unified System Revenue Bonds, due in annual installments through 2033, interest rates 3% to 5%	49,250,000	49,250,000	590,000
Plus premium	6,075,767	6,075,767	289,322
Total net SBR 2012	55,325,767	55,325,767	879,322
Total net bonds	**$ 71,587,897**	**$ 61,115,375**	**$ 1,587,392**

Principal and interest on the SBR 2004A Bonds, the MBA 2004A&B Bonds, and the SBR 2012A Bonds are secured by pledged revenues which consist of all (i) net operating revenues of the Bookstore, the Student Center, and all University Food Services; (ii) Student Center building fees; (iii) investment income; and (iv) HUD subsidy grant.

The following is a summary of the pledged revenues for fiscal year 2012 and the bond payments due in fiscal year 2013:

Pledged revenues	
Building fee – Spring	$ 1,889,819
Building fee – Summer	596,669
Building fee – Fall	1,962,070
Total building fees	4,448,558
Net auxiliary profits	76,085
Total pledged revenues	4,524,643
Principal and interest payments	
SBR 2004A Bonds	409,253
MBA 2004A&B Bonds	675,380
SBR 2012A Bonds	2,396,310
Total principal and interest payments	3,480,943
Pledged revenues in excess of payments	1,043,700
Pledged revenues in excess of 110%	**$ 695,606**

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

As required by the SBR 2012A Bond, a reserve fund has been established of $3,718,850.

The scheduled maturities of bonds payable at June 30, 2012, are as follows:

Year	Principal	Interest	Total
2013	$ 1,385,000	$ 2,095,943	$ 3,480,943
2014	2,470,000	2,311,960	4,781,960
2015	2,555,000	2,223,532	4,778,532
2016	2,350,000	2,136,990	4,486,990
2017	2,440,000	2,052,162	4,492,162
2018-2022	12,535,000	8,653,574	21,188,574
2023-2027	12,480,000	5,795,000	18,275,000
2028-2032	15,820,000	2,412,375	18,232,375
2033	3,575,000	71,500	3,646,500
Total	**$55,610,000**	**$27,753,036**	**$83,363,036**

NOTE 10. OPERATING LEASES

The University leases airport facilities and land under non-cancelable operating leases. Total costs for such leases were $44,892 for the year ended June 30, 2012.

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
2013	$ 38,715
2014	38,715
2015	38,894
2016	40,864
2017	40,864
2018-2022	208,493
2023-2027	159,824
2028-2032	44,239
Total future minimum lease payments	**$ 610,608**

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 $13,284,175 as of June 30, 2012. Accumulated depreciation of leased assets totaled $3,357,200 at June 30, 2012.

The assets acquired through capital leases are as follows:

Aircraft	$ 2,129,020
Less: accumulated depreciation	(812,223)
Student Services equipment	51,743
Less: accumulated depreciation	(36,625)
Fire trucks	379,677
Less: accumulated depreciation	(185,366)
ESCO Energy Savings Projects	10,723,735
Less: accumulated depreciation	(2,322,986)
Total net capital lease assets	**$ 9,926,975**

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, 2012:

Fiscal Year Ending June 30	Capital Leases
2013	$ 964,198
2014	946,080
2015	853,546
2016	854,463
2017	807,542
2018-2022	4,266,193
Total future minimum lease payments	8,692,022
Amounts representing interest	(1,774,647)
Present value of net minimum lease payments	**$ 6,917,375**

NOTE 12. EARLY RETIREMENT LIABILITY

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

Benefits are payable for five years or until the retiree reaches age 65, whichever occurs first. The benefits include a stipend equal to 20 percent of the retiree's salary at the time of active employment along with medical and dental insurance. The stipend is paid semi-monthly. During the fiscal year ended June 30, 2012, 29 employees participated in the early retirement plan, of which 21 retirees received medical and dental insurance benefits and 26 received stipends.

The projected future cost of these stipends, and medical and dental insurance benefits have been calculated based on current payments plus projected increases expected of 1.06% and 2.67% respectively, based on historical data. The amount recognized on the financial statements was calculated at the discounted present value of the projected future costs.

The discount rate used of 0.7% 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, 2012, the expenses for the 20 percent incentive stipend were $271,426 and the expenses for medical and dental insurance were $183,359.

NOTE 13. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of the changes to the University's long-term liabilities during the fiscal year ended June 30, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	$ 8,530,000	$49,250,000	$(2,170,000)	$55,610,000	$1,385,000
Less deferred amounts, discounts, and premiums	(650,281)	6,075,767	79,889	5,505,375	202,392
Total bonds payable	7,879,719	55,325,767	(2,090,111)	61,115,375	1,587,392
Capital leases	7,801,355	-	(883,980)	6,917,375	647,438
Total bonds and capital leases	15,681,074	55,325,767	(2,974,091)	68,032,750	2,234,830
Notes payable	1,776,812	3,250,000	(176,217)	4,850,595	238,147
Early retirement	975,778	123,197	(454,905)	644,070	363,091
Accrued leave	4,130,000	3,524,651	(3,203,969)	4,450,682	1,536,534
Total	**$22,563,664**	**$62,223,615**	**$(6,809,182)**	**$77,978,097**	**$4,372,602**

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

	2012	2011
Notes payable	$ 20,721	$ 99,580
Deferred annuity payments	418,653	455,280
Total	**$ 439,374**	**$ 554,860**

NOTE 14. PENSION PLANS AND RETIREMENT BENEFITS

Plan Description

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

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

Funding Policy

Plan members in the State and School Contributory Retirement System are required to contribute 6.00% of their annual covered salary (all or part may be paid by the employer for the employee) and the University is required to contribute 12.37% of their annual covered salary. In the State and School Noncontributory Retirement System, the University is required to contribute 16.86% (with an additional 1.5% to a 401(k)) of their annual covered salary. The contribution rates are actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The University contributions to the State and School Contributory Retirement System for the years ending June 30, 2012, 2011, and 2010 were $228,879, $199,029, and $167,923, respectively, and for the Noncontributory Retirement System the contributions for June 30, 2012, 2011, and 2010 were $3,474,679, $3,268,418, and $2,809,631, respectively. Employer contributions to the 401(k) plan for the same years were $329,008, $300,409, and $296,375, respectively. The contributions were equal to the required contributions for each year.

Employee contributions to the 401(k) plan for the years ended June 30, 2012, 2011, and 2010 were $599,862, $621,798, and $645,443, respectively.

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

For the year ended June 30, 2012, the University's contribution to this defined contribution plan was 14.2% of the employee's eligible annual salary or $8,842,870. The University has no further liability once annual contributions are made.

NOTE 15. RISK MANAGEMENT

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

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

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

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

	2012	2011
Estimated claims liability - beginning of year	$ 2,502,722	$ 2,120,285
Current year claims and changes in estimates	21,161,494	19,359,679
Claim payments and administrative expenses	(21,184,994)	(18,977,242)
Estimated claims liability - end of year	**$ 2,479,222**	**$ 2,502,722**

NOTE 17. COMMITMENTS AND CONTINGENT LIABILITIES

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

The University participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant.

It is highly unlikely that any disallowances would be material.

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

As of June 30, 2012, the University had the following outstanding commitments to DFCM for various projects:

West campus buildings improvements	$ 2,295
Student wellness center and parking structure	46,676,292
Losee Center remodel	120,289
Admin building suite and classroom remodel	250,069
Pope Science Building fume hoods replacement	251,984
ESCO project phase 2	92,753
Provo airport hanger exterior siding replacement	246,166
Campus Drive south end pedestrian underpass	745,105
Board of Trustees suite remodel	193,839
Culinary Arts renovation	26,998
Geneva property lot 1 improvements	5,543
Total	**$ 48,611,333**

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 two buildings from the Foundation. One of the building leases expires September 2012 and the second building lease expires June 2027. The lease agreements call for fixed payments that in substance provide adequate cash flows to service the debt on the buildings and provide a return of the Foundation's investment in the buildings.

The future minimum annual payments to be paid under the lease agreements are as follows for the years ending June 30:

2013	$ 189,150
2014	186,761
2015	186,761
2016	186,761
2017	186,761
2018-2022	933,805
2023-2027	933,805
Total	**$ 2,803,804**

B. During the year ended June 30, 2012, the University purchased land valued at $15 million by paying cash of $2 million, borrowing $3 million from the Foundation (see C below), and receiving a donation of $10 million from the seller. The donation was made as gift in kind to the Foundation and subsequently transferred to the University. The $10 million is reported as part of "Transfers of in-kind donations" in the statement of activities of the Foundation's financial statement.

The Foundation donated land to the University during the year ended June 30, 2011. The Foundation originally received this land valued at $2,398,600 as a donation. This is reported as part of "Transfers of donated in-kind donations" in the

Statement of Activities of the Foundation's financial statement.

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

C. During the year ended June 20, 2012, the University borrowed $3 million when it acquired the land noted in B above. The note carries a term of 20 years and bears a 6 percent interest rate with semi-annual payments of $127,787, and matures September 2031.

During the year ended June 30, 2009 the University borrowed $2,000,000 from the Foundation to acquire a number of buildings adjacent to campus. The note carries a term of 15 years and bears a 6 percent interest rate with semi-annual payments of $102,039 and matures August 2023. The amount due as of June 30, 2012, was $1,719,828 including accrued interest of $41,947.

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

2013	$ 188,146
2014	199,604
2015	211,760
2016	224,656
2017	238,338
2018-2022	1,427,918
2023-2027	1,137,135
2028-2032	1,010,537
Total	**$ 4,638,094**

D. During the year ended June 30, 2012, the Foundation had certain additional transactions with the University in its capacity to support the University. The Foundation forwarded funds and donated in-kind materials and equipment to the University for scholarships, awards, departments, and general use. Funds forwarded to departments during the year ended June 30, 2012 were used towards wages and purchases of items to enhance University programs. The University provides facilities and services to the Foundation, the value of which is undetermined and is not recorded on the financial statements.

NOTE 19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

Year Ended June 30, 2012
Natural Classification

	Compensation	Benefits	Financial Aid	Maintenance	General and Administrative	Auxiliary	Depreciation	Total
Functional Classification								
Instruction	$ 59,822,055	$ 20,642,770	$ -	$ 657,525	$ 8,716,492	$ -	$ -	$ 89,838,842
Academic Support	11,275,909	4,577,568	-	190,382	4,579,982	-	-	20,623,841
Student Services	13,116,570	5,318,996	-	118,302	5,283,548	-	-	23,837,416
Institutional Support	15,688,690	7,681,307	-	1,196,554	8,215,276	-	-	32,781,827
Operation and Maintenance of Plant	5,117,909	2,833,589	-	7,916,479	3,939,220	-	-	19,807,197
Student Financial Aid	1,186,194	15,222	41,076,911	-	-	-	-	42,278,327
Public Service	442,087	144,651	-	4,081	199,338	-	-	790,157
Research	20,902	3,972	-	-	27,542	-	-	52,416
Remedial Education	1,650,070	535,264	-	742	25,395	-	-	2,211,471
Auxiliaries	3,714,013	1,312,431	-	675,477	3,667,584	10,715,065	-	20,084,570
Depreciation	-	-	-	-	-	-	11,191,332	11,191,332
Total Expenses	**$ 112,034,399**	**$ 43,065,770**	**$ 41,076,911**	**$ 10,759,542**	**$ 34,654,377**	**$ 10,715,065**	**$ 11,191,332**	**$ 263,497,396**