



COLLEGE OF EASTERN UTAH
A Component Unit of the State of Utah

Annual Financial Report
For the Fiscal Year Ended June 30, 2007

Report No. 07-54

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR

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For the Fiscal Year Ended June 30, 2007

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UTAH STATE AUDITOR

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INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Trustees, Audit Committee,
and
Dr. Mike King, Interim President
College of Eastern Utah

We have audited the accompanying basic financial statements of the College of Eastern Utah (hereinafter referred to as the "College"), a component unit of the State of Utah, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the College's 2006 financial statements and, in our report dated May 16, 2008, 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 College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2007, and the changes in financial position and 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 May 16, 2008 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3 through 7 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 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.

A handwritten signature in black ink, appearing to read "Auston G. Johnson". The signature is fluid and cursive, with a large initial "A" and "J".

Auston G. Johnson, CPA
Utah State Auditor
May 16, 2008

COLLEGE OF EASTERN UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

Management's Discussion and Analysis

This section of the College of Eastern Utah's (College's) Annual Financial Report presents management's discussion and analysis of the College's financial performance during the fiscal year ended June 30, 2007. The discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis is designed to provide a summary analysis of the College's financial activities based on facts and conditions known at the date of the auditor's report. The financial statements, footnotes, and this discussion are the responsibility of management.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The financial statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. The annual report consists of three basic financial statements which provide information on the College as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. Each one of these statements will be discussed.

Statement of Net Assets

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, identifies the College's equity in property, plant, and equipment. The next category is restricted net assets, which is divided into two subcategories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the College but must be spent for purposes designated 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 to the College for any lawful college purpose.

COLLEGE OF EASTERN UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

CONDENSED STATEMENT OF NET ASSETS

	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 3,916,696	\$ 3,772,412
Noncurrent assets		
Capital	43,779,791	42,697,214
Other	17,991,790	16,471,411
Total assets	<u>65,688,277</u>	<u>62,941,037</u>
Liabilities		
Current liabilities	1,912,444	2,261,338
Noncurrent liabilities	2,006,224	5,295,379
Total liabilities	<u>3,918,668</u>	<u>7,556,717</u>
Net assets		
Invested in capital assets, net of related debt	42,538,147	38,171,721
Restricted – nonexpendable	2,596,159	2,310,841
Restricted – expendable	15,139,545	13,680,594
Unrestricted	1,495,758	1,221,164
Total net assets	<u>\$ 61,769,609</u>	<u>\$ 55,384,320</u>

The increase in net assets is due largely to the College obtaining funding to reduce long-term debt by approximately \$3 million, appreciation of investments related to endowments, and the purchase of the Western Energy Training Center (WETC) facility.

Statement of Revenues, Expenses, and Changes in Net Assets

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 revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the College. The College's expenses are listed by function in Note K of the financial statements. Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the College. 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 College without the Legislature directly receiving commensurate goods and services for those revenues.

COLLEGE OF EASTERN UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>2007</u>	<u>2006</u>
Operating revenues		
Tuition and fees, net	\$ 2,501,684	\$ 2,566,280
Grants and contracts	6,943,199	5,514,582
Auxiliary enterprises, net	1,672,282	1,678,535
Other operating revenues	1,102,913	1,101,798
Total operating revenues	<u>12,220,078</u>	<u>10,861,195</u>
Operating expenses		
Salaries, wages, and benefits	17,095,799	15,275,682
Student financial aid	1,807,512	2,154,701
Utilities	865,614	762,781
Depreciation	2,100,501	2,018,679
Other operating expenses	6,648,101	5,670,617
Total operating expenses	<u>28,517,527</u>	<u>25,882,460</u>
Operating loss	<u>(16,297,449)</u>	<u>(15,021,265)</u>
Nonoperating revenues		
State appropriations	17,166,000	13,751,800
Other nonoperating revenues	2,682,634	1,330,664
Net nonoperating revenues	<u>19,848,634</u>	<u>15,082,464</u>
Income before other revenues	<u>3,551,185</u>	<u>61,199</u>
Other revenues		
Capital grants and gifts	2,806,330	3,235,184
Additions to permanent endowments	27,774	210,743
Total other revenues	<u>2,834,104</u>	<u>3,445,927</u>
Increase in net assets	6,385,289	3,507,126
Net assets – beginning of year	55,384,320	51,877,194
Net assets – end of year	<u>\$ 61,769,609</u>	<u>\$ 55,384,320</u>

The most significant sources of operating revenues for the College are tuition and fees, auxiliary enterprise revenue, and grants and contracts. The increase in grants and contracts revenue was due primarily to the receipt of the Energy Grant related to the operation of WETC. A decrease in Pell funding from decreased enrollment was offset primarily by one-time grants received in 2007 that weren't received in 2006. Operating expenses increased primarily due to state funded wage and benefit increases for employees. The large increase in State appropriations is due primarily to one-time appropriations to reduce long-term debt.

COLLEGE OF EASTERN UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

Statement of Cash Flows

The final statement presented by the College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activities of the College during the year. The statement is divided into five sections. The first section deals with operating cash flows and shows the net cash used by the operating activities of the College. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects 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 to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

CONDENSED STATEMENT OF CASH FLOWS

	2007	2006
Cash used by operating activities	\$ (15,394,286)	\$ (13,076,815)
Noncapital financing activities	17,474,306	14,563,669
Capital financing activities	(3,848,567)	(2,003,526)
Investing activities	756,246	502,532
Net decrease in cash	(1,012,301)	(14,140)
Cash – beginning of year	1,770,152	1,784,292
Cash – end of year	<u>\$ 757,851</u>	<u>\$ 1,770,152</u>

Economic Outlook

The school districts in two of the four counties in the catchment area of the two College of Eastern Utah campuses have experienced declines in enrollment in recent years. Over the last twenty-five years the populations of the two largest counties in the catchment area, Carbon and Emery, have declined approximately 15% and 14%. San Juan County, the home of the College's Blanding campus, has shown an increase of 17% over the last twenty-five years. These three counties have a projected average increase from 2007 through 2011 of approximately 5%. These demographic patterns have historically resulted, and are expected to continue to result, in pressure to recruit students from more populous areas in the State.

Recruiting students who have to leave home and local colleges to attend the College of Eastern Utah requires financial offsets to compensate for the costs of housing and food that they would not have to bear if they remained at home. Significant efforts have been made to try to raise sufficient scholarship funds to recruit these students; however, adequate additional funding for scholarships has not been developed at the same rate as the need to offset the level of local enrollments, resulting in an overall decline in enrollment.

COLLEGE OF EASTERN UTAH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

The College, in conjunction with the State Board of Regents has worked to offset declining enrollment. First, the College opened the Western Energy Training Center (WETC) in 2006. The mission of WETC is to provide training and instruction to energy related industries.

Second, the merger of the Southeast Applied Technology College (the SEATC), a Utah College of Applied Technology (UCAT) Campus with the College effective July 1, 2007 restored the College to its full mission. Prior to the creation of UCAT, the College of Eastern Utah served as the region's comprehensive community college. After the split the College continued to act as the SEATC's fiscal agent, managing all financial functions. The departure of non-credit programs to another campus impacted attendance in traditional programs as students became less likely to "cross enroll" in credit and non-credit programs. The merger includes a budget transfer in excess of \$1.5 million.

Finally, the College successfully obtained funding to retire auxiliary debt, allowing auxiliary programs to be debt free at the end of fiscal year 2007. Removal of this expense will provide significant revenue that should allow the College to retire the scholarship and other deficits while securing a financially sound ongoing base, despite challenging local demographics.

COLLEGE OF EASTERN UTAH

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		(Comparative Only)
Current Assets		
Cash and cash equivalents	\$ 587,702	\$ 1,397,562
Accounts receivable, net of allowance of \$138,950	2,684,081	1,615,842
Due from Southeast Applied Technology College	25,920	-
Pledges receivable	63,581	18,246
Interest receivable	33,850	29,801
Student loans and interest receivable, net of allowance of \$4,729	91,341	89,056
Inventory	394,359	449,990
Prepaid expenses	35,862	171,915
Total current assets	<u>3,916,696</u>	<u>3,772,412</u>
Noncurrent Assets		
Restricted cash and cash equivalents	170,149	372,590
Restricted investments	17,116,527	15,003,815
Assets held in trust	59,654	97,207
Investments	337,344	642,894
Student loans and interest receivable, net of allowance of \$106,641	308,116	354,905
Capital assets, net of accumulated depreciation of \$28,366,354 (Note C)	43,779,791	42,697,214
Total noncurrent assets	<u>61,771,581</u>	<u>59,168,625</u>
Total assets	<u>65,688,277</u>	<u>62,941,037</u>
LIABILITIES		
Current Liabilities		
Accounts payable	771,116	662,042
Interest payable	11,344	49,840
Accrued payroll	497,407	410,311
Due to primary government	-	169,805
Due to Southeast Applied Technology College	-	183,185
Compensated absences and post employment benefits	229,244	195,436
Deferred revenue	249,329	259,787
Bonds, notes, and contracts payable (Note C)	117,513	297,124
Other liabilities	36,491	33,808
Total current liabilities	<u>1,912,444</u>	<u>2,261,338</u>
Noncurrent liabilities		
Compensated absences and post employment benefits	727,433	891,564
Deposits	68,195	70,099
Bonds, notes, and contracts payable (Note C)	1,210,596	4,333,716
Total noncurrent liabilities	<u>2,006,224</u>	<u>5,295,379</u>
Total liabilities	<u>3,918,668</u>	<u>7,556,717</u>
NET ASSETS		
Invested in capital assets, net of related debt	42,538,147	38,171,721
Restricted for:		
Nonexpendable items		
Scholarships	2,596,159	2,310,841
Expendable items		
Scholarships	14,194,142	12,555,739
Loans	528,762	521,769
Other	416,641	603,086
Unrestricted	1,495,758	1,221,164
Total net assets	<u>\$ 61,769,609</u>	<u>\$ 55,384,320</u>

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

COLLEGE OF EASTERN UTAH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007	2006
		(Comparative Only)
OPERATING REVENUES AND EXPENSES		
Revenues		
Tuition and fees, net of scholarship allowances of \$1,311,073	\$ 2,501,684	\$ 2,566,280
Interest on student loans receivable	3,233	13,714
Federal grants and contracts	5,781,222	4,496,502
State and local grants and contracts	1,027,977	884,942
Nongovernmental grants and contracts	134,000	133,138
Sales and services	187,605	251,647
Auxiliary enterprises, net of scholarship allowances of \$876,403	1,672,282	1,678,535
Other operating revenues	912,075	836,437
Total operating revenues	12,220,078	10,861,195
Expenses		
Salaries, wages, and benefits	17,095,799	15,275,682
Student financial aid	1,807,512	2,154,701
Utilities	865,614	762,781
Depreciation	2,100,501	2,018,679
Other operating expenses	6,648,101	5,670,617
Total operating expenses	28,517,527	25,882,460
Operating loss	(16,297,449)	(15,021,265)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	17,166,000	13,751,800
Gifts	307,370	622,091
Investment income	2,493,934	993,471
Interest on capital asset related debt	(157,302)	(236,061)
Gain (loss) on disposal of equipment	38,632	(48,837)
Total nonoperating revenues	19,848,634	15,082,464
Income before other revenue	3,551,185	61,199
OTHER REVENUES		
Capital grants and gifts	2,806,330	3,235,184
Additions to permanent endowments	27,774	210,743
Total other revenue	2,834,104	3,445,927
Increase in Net Assets	6,385,289	3,507,126
NET ASSETS		
Net asset – beginning of year	55,384,320	51,877,194
Net assets – end of year	\$ 61,769,609	\$ 55,384,320

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

COLLEGE OF EASTERN UTAH
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007	2006
		(Comparative Only)
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 2,491,226	\$ 2,625,754
Receipts from grants / contracts	5,874,960	5,412,284
Receipts from auxiliary, educational, and other services	1,859,886	1,930,182
Collection of (payments for) loans to students / employees	43,688	(121,001)
Payments to suppliers	(6,809,966)	(5,433,367)
Receipts from suppliers	92,458	182,597
Payments for scholarships	(1,807,512)	(2,154,701)
Payments for employee services and benefits	(17,139,026)	(15,518,563)
Net cash used by operating activities	(15,394,286)	(13,076,815)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	17,166,000	13,751,800
Receipts from gifts / grants	262,035	622,091
Receipts for permanent endowments	27,774	208,377
Receipts (payments) for assets held in trust	18,497	(18,599)
Net cash provided by noncapital financing activities	17,474,306	14,563,669
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Receipts from capital grants / gifts	2,806,330	3,235,184
Proceeds from sale of assets	1,703	78,912
Purchase of capital assets	(3,215,623)	(4,719,772)
Principal paid on capital debt / leases	(3,283,675)	(361,789)
Interest paid on capital debt / leases	(157,302)	(236,061)
Net cash used by capital financing activities	(3,848,567)	(2,003,526)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale / maturity of investments	574,102	997,919
Receipt of interest / dividends from investments	568,600	422,306
Purchase of investments	(386,456)	(917,693)
Net cash provided by investing activities	756,246	502,532
Net decrease in cash	(1,012,301)	(14,140)
Cash and cash equivalents – beginning of year	1,770,152	1,784,292
Cash and cash equivalents – end of year	\$ 757,851	\$ 1,770,152
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	\$ (16,297,449)	\$ (15,021,265)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	2,100,501	2,018,679
Changes in assets and liabilities:		
Receivables, net	(1,068,239)	(102,298)
Student loans and interest receivable	40,455	(134,715)
Due to (from) primary government	(169,805)	152,703
Due to (from) Southeast Applied Technology College	(209,105)	183,185
Inventories	55,631	(18,254)
Prepaid expenses	136,052	(53,058)
Accounts payable	70,579	101,206
Accrued payroll	87,096	(89,303)
Deferred revenue	(10,458)	59,474
Deposits (formerly funds held for others)	(1,904)	(11,515)
Compensated absences	(130,323)	(153,577)
Other liabilities	2,683	(8,077)
Net cash used by operating activities	\$ (15,394,286)	\$ (13,076,815)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase in fair value of investments	\$ 1,895,484	\$ 301,514
Decrease in Charitable Remainder Unitrust	52,820	73,130
Total noncash investing, capital and financing activities	\$ 1,948,304	\$ 374,644

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

COLLEGE OF EASTERN UTAH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the College of Eastern Utah (the College) are described below to enhance the usefulness of the financial statements to the reader.

Reporting Entity: The College is a component unit of the State of Utah in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and is included in the State's *Comprehensive Annual Financial Report*. The College serves Eastern Utah as a two-year college of higher education with campuses located in Price and Blanding. Satellite operations in Monument Valley, Montezuma Creek, Monticello, and Castle Dale, Utah extend services to remote areas of the State, including the Navajo Nation.

The financial statements include the accounts of the College, all auxiliary enterprises and other restricted and unrestricted funds of the College, and the College of Eastern Utah Foundation (the Foundation). The Foundation is included in the financial statements of the College as a blended component unit. The nature and significance of the relationship between the College and the Foundation is such that exclusion would cause the College's financial statements to be misleading or incomplete. Unaudited financial statements compiled by an independent accounting firm are available in the College's development office.

The San Juan Foundation (a separate but affiliated non-profit corporation) is administered by a separate Board of Trustees and is not included in these financial statements. The San Juan Foundation has been determined to be separate from the College's reporting entity, in accordance with GASB Statement No. 14.

The Southeast Applied Technology College (the SEATC) (a separate but affiliated entity) is not included in these financial statements. The SEATC has been determined under GASB Statement No. 14 to be separate from the College's reporting entity and is a campus of the Utah College of Applied Technology. The College performs administrative functions including accounting, registration, and personnel for the SEATC. The SEATC also uses the College's capital assets for their operations. The College maintains separate accounts for all the SEATC functions performed by the College.

Basis of Accounting: Under the provisions of the GASB standards, the College is permitted to report as a special-purpose government engaged in business-type activities (BTA). BTA reporting requires the College to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund. This includes a management discussion and analysis, a statement of net assets or a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; notes to the financial statements; and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement

COLLEGE OF EASTERN UTAH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

focus and the accrual basis of accounting. Using this method, revenues are recorded when earned and expenses are recorded when a liability has been incurred. Fund financial statements are not required for BTA reporting.

In accordance with GASB Statement No. 20, the College is required to follow all applicable GASB pronouncements. In addition, the College should apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The College has elected not to apply FASB pronouncements issued after November 30, 1989.

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the College recognizes the estimated net realizable value of pledges as revenue as soon as all eligibility and time requirements imposed by the provider have been met.

Cash Equivalents: For purposes of the statements of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the Utah Public Treasurers' Investment Fund are also considered cash equivalents.

Accounts Receivable: Accounts receivables are recorded at net of estimated uncollectible amounts. The allowance for uncollectible accounts is calculated using the allowance method. Allowances are not established for receivables consisting of amounts due from governmental units.

Inventories: Bookstore inventories at the Price Campus are valued at estimated cost using the retail method. Food service inventories at both the Price and Blanding Campus and bookstore inventories at the Blanding Campus are valued at cost determined by the last in, first out (LIFO) method.

Restricted Cash and Cash Equivalents: Cash and cash equivalents 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 assets in the statements of net assets.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. For equipment, art, and special collections, the College's capitalization policy includes all items with a cost of \$1,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements with a cost of \$20,000 or more are capitalized.

COLLEGE OF EASTERN UTAH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. All land is capitalized and land, art, and special collections are not depreciated.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 40 years for buildings; 20 years for infrastructure, land improvements, and library collections; and 5 to 15 years for equipment.

Deferred Revenue: Deferred revenue consists of tuition for summer and fall courses that have not been completed yet and student fees that have been collected in advance of when earned. Deferred revenue also consists of funds received from grants and contracts that have not yet been earned. It is anticipated that all material amounts in deferred revenues will be earned within the following fiscal year.

Compensated Absences: Employee's annual leave is accrued at a rate of 12 to 25 working days per year depending on the status of the employee and their length of service. There is no requirement to use annual leave, but a maximum of 30 days may be carried forward at the beginning of each year. At termination, employees are paid for their unused annual leave. The College accrues and expenses vacation leave in the year in which the vacation is earned.

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 compensated absences, early retirement, and other liabilities that will not be paid within the next fiscal year.

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

Invested in capital assets, net of related debt: This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

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 is to 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 principal.

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Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the policy of the College is to first apply the expense towards allowed and appropriate restricted resources, and then towards unrestricted resources.

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

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees, or sales and services of auxiliary enterprises. Also, most federal, state, and local grants and contracts are reported as operating revenues.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as state appropriations, gifts and contributions, and other revenue sources such as investment income, that are not derived from the College's principal ongoing operations.

Classification of Operating Expenses: Operating expenses include all costs incurred by the College that support the mission of the College, such as salaries and benefits for employees, student financial aid, depreciation on capital assets, utilities and other similar expenses paid to suppliers and vendors.

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or non-governmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Comparative Data: The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2006 from which the summarized information was derived.

COLLEGE OF EASTERN UTAH
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Disclosures: The footnotes related to the financial statements for the fiscal year ended June 30, 2006 have not been reported in this report but are available in the separately issued financial statements for that year.

NOTE B: DEPOSITS AND INVESTMENTS

Cash and cash equivalents consist of cash and short-term investments with an original maturity of three months or less.

At June 30, 2007, cash and cash equivalents consisted of:

Cash	\$ 352,473
Utah Public Treasurers' Investment Fund	<u>405,378</u>
Total (fair value)	<u><u>\$ 757,851</u></u>

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 (*Utah Code*, Section 51, Chapter 7) that relate to the deposit and investment of public funds.

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

As of July 1, 2005 for endowment funds, the entity follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and State Board of Regents R541, Management and Reporting of Institutional Investments (R541). According to the UPMIFA, the governing board may appropriate for expenditure for the purposes for which an endowment is established, as much of the net appreciation, realized and unrealized, of the fair value of the assets of an endowment over the historic dollar value as is prudent under the facts and circumstances prevailing at the time of the action or decision. At June 30, 2007, endowment income available for spending includes interest and dividends received from earnings and realized gains and losses from the sale of investments. Unrealized gains and losses are not included in spendable income. The spending policy is reviewed periodically and any necessary changes are made.

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Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a formal deposit policy for custodial credit risk. As of June 30, 2007, \$427,071 of the College's bank balances of \$778,758 was uninsured and uncollateralized.

Investments

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

Statute authorizes the College to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services 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 Treasurers' Investment Fund.

The UPMIFA and R541 allow the College to invest endowment funds (including gifts, devises, or bequests of property of any kind from any source) in any of the above investments or any of the following subject to satisfying certain criteria: professionally managed pooled or commingled investment funds registered with the Securities and Exchange Commission or the Comptroller of the Currency (e.g., mutual funds); professionally managed pooled or commingled investment funds created under 501(f) of the Internal Revenue Code which satisfy the conditions for exemption from registration under Section 3(c) of the Investment Company Act of 1940; any investment made in accordance with the donor's directions in a written instrument; and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, and private real estate assets or absolute return and long/short hedge funds.

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The Utah State Treasurer's Office operates the Public Treasurers' Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Utah Money Management Act. 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, 2007, the College had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1-5	6-10
Utah Public Treasurers' Investment Fund	\$ 405,378	\$ 405,378	\$ -	\$ -
Bond funds	6,300,357	-	-	6,300,357
Utah Housing Corporation	188,880	-	-	188,880
Total	6,894,615	\$ 405,378	\$ -	\$ 6,489,237
Equity funds	10,816,170			
Total	\$ 17,710,785			

Interest Rate Risk

Interest rate risk arises when changes in interest rates adversely affect the fair value of an investment. The College's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Utah Money Management Act or UPMIFA and R541, 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, R541 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.

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Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act, the UPMIFA, and R541, as previously discussed.

At June 30, 2007, the College had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Rating</u>	
		<u>AAA</u>	<u>Unrated</u>
Utah Public Treasurers' Investment Fund	\$ 405,378	\$ -	\$ 405,378
Bond funds	6,300,357	-	6,300,357
Utah Housing Corporation	188,880	188,880	-
Total	<u>\$ 6,894,615</u>	<u>\$ 188,880</u>	<u>\$ 6,705,735</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The College's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council or the UPMIFA and R541, 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, R541 requires that a minimum of 25% of the equity portfolio must be invested in companies with an average market capitalization of at least \$10 billion. Further, a minimum of 25% of the overall endowment portfolio should be invested in investment grade fixed income securities as defined by Moody's Investors Service or Standard and Poor's. The overall endowment portfolio cannot consist of more than 75% equity investments. R541 also limits investments to no more than 3% in any one sector fund that is concentrated within one sector of the U.S. market and no more than 5% in equity or fixed income funds of developing markets. It also limits investments in alternative investment funds, as allowed by R541, to no more than 30% based on the size of the College's endowment fund.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. As of June 30, 2007, the College had \$188,880 in Utah Housing Corporation securities which were held by the counterparty's trust department or agent but in the College's name.

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE C: CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets at June 30, 2007 consisted of the following:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 1,446,780	\$ 30,193	\$ -	\$ 1,476,973
Art and special collections	114,454	-	-	114,454
Land improvements / infrastructure	6,261,030	108,365	-	6,369,395
Buildings	47,883,324	1,235,358	-	49,118,682
Equipment	10,269,028	894,009	151,775	11,011,262
Library books	939,563	40,080	10,097	969,546
Construction in progress	2,173,831	912,002	-	3,085,833
Total	<u>69,088,010</u>	<u>\$ 3,220,007</u>	<u>\$ 161,872</u>	<u>72,146,145</u>
Less accumulated depreciation for:				
Land improvements / infrastructure	2,663,753	225,106	-	2,888,859
Buildings	15,621,954	1,144,630	-	16,766,584
Equipment	7,688,964	687,781	114,846	8,261,899
Library books	416,125	42,984	10,097	449,012
Total	<u>26,390,796</u>	<u>\$ 2,100,501</u>	<u>\$ 124,943</u>	<u>28,366,354</u>
Capital Assets - net	<u>\$ 42,697,214</u>			<u>\$ 43,779,791</u>

Bonds, Notes and Contracts Payable at June 30, 2007 consisted of the following:

Payable	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2007
Utah Building Ownership Authority (1)	11/15/1998	05/15/2018	3.80-5.50%	\$ 1,875,000	\$ 93,137	\$ 1,237,577
Xerox Corporation Lease (2)	10/01/2005	10/01/2010	7.58%	7,315	1,501	4,067
Subtotal				1,882,315	94,638	1,241,644
Charitable Remainder Unitrust (3)	12/11/1995		7.50%	-	22,875	86,465
Total Bonds, Notes, and Contracts Payable - Reporting Entity				<u>\$ 1,882,315</u>	<u>\$ 117,513</u>	<u>\$ 1,328,109</u>

See the following notes (1) through (3)

- (1) The College has an agreement with the Utah Building Ownership Authority. The Utah Building Ownership Authority by state statute issued a bond for the College's Student Center in the amount of \$1,875,000. The College will pay the bond, principal, and interest, to the Utah Building Ownership Authority over a period of twenty years. During fiscal year 1998-1999, the Utah Building Ownership Authority refunded part of its bond, resulting in an economic cost savings of \$119,293 to the College as a result of lower interest rates. The principal amount remained the same; therefore, there was no book value gain or loss.

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- (2) An equipment capital lease purchase agreement was entered into with the Xerox Corporation in the amount of \$7,315 to purchase equipment for a period of 60 months with a monthly payment of \$146.85 at an effective interest rate of 7.58%.
- (3) The College received the assets of a charitable remainder unitrust during fiscal year 2005 and officially became the trustee for the unitrust on August 17, 2005. As the trustee, the College is required to make monthly payments to the donors for their lifetimes.

Maturities of long-term debt principal and interest requirements for the College at June 30, 2007 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2008	\$ 117,513	\$ 68,328	\$ 185,841
2009	122,641	63,087	185,728
2010	127,342	57,571	184,913
2011	127,274	51,852	179,126
2012	108,589	45,834	154,423
2013-2017	589,421	134,980	724,401
2018-2022	135,329	8,952	144,281
Total	<u>\$ 1,328,109</u>	<u>\$ 430,604</u>	<u>\$ 1,758,713</u>

Changes in long-term liabilities for the year ended June 30, 2007 are summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 960,000	\$ -	\$ 960,000	\$ -	\$ -
Notes and contracts payable	3,565,493	-	2,323,849	1,241,644	94,638
Charitable remainder unitrust payable	105,347	66,693	85,575	86,465	22,875
Compensated absences and post employment	1,087,000	144,043	274,366	956,677	229,244
Total	<u>\$ 5,717,840</u>	<u>\$ 210,736</u>	<u>\$ 3,643,790</u>	<u>\$ 2,284,786</u>	<u>\$ 346,757</u>

NOTE D: FEDERAL CONTRACTS AND GRANTS

The College receives significant financial assistance from the U.S. Government in the form of contracts and grants. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the contract or grant agreements and applicable federal regulations, including the expenditures of the resources for eligible purposes. All grants are subject to financial and compliance audits under federal regulations. Any disallowance as a result of these audits may become a liability of the College.

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In the opinion of management, the potential for a material liability due to costs being disallowed in future audits is extremely remote.

NOTE E: RETIREMENT AND PENSION PLANS

The College contributes to the State and School Contributory Retirement System and the State and School Noncontributory Retirement System. These are 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 sections of Chapter 49 of the *Utah Code*. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Contributory Retirement System and the State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

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 College is required to contribute 9.73% of their annual covered salary. In the State and School Noncontributory Retirement System the College is required to contribute 15.72% (including 1.5% to a 401(K) salary deferral program) of their annual covered salary. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The College's contributions to the State and School Contributory Retirement System for the years ended June 30, 2007, 2006, and 2005 were \$6,163, \$5,635, and \$4,935, respectively, and for the Noncontributory Retirement System the contribution for the years ended June 30, 2007, 2006, and 2005 were \$772,970, \$687,107, and \$627,212, respectively. The contributions were equal to the required contributions for each year.

The Teachers Insurance and Annuity Association (TIAA) provides an individual retirement fund contract with each participating employee. Benefits provided to retired employees are based on the value of the individual contracts and the estimated life expectancy of the employee at retirement. Contributions by the College to the employee's contract become vested at the time the contribution is made. Employees are eligible to participate from the date of employment and are not required to contribute to the fund. For the fiscal year ended June 30, 2007, the College's contribution to this defined

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contribution plan was 14.2% of the employee's annual salary or \$860,023. The College has no further liability once annual contributions are made.

NOTE F: POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note E, the College provides post employment benefits in accordance with College policy and as approved by the Board of Trustees for those employees who are eligible and participate in the College's early retirement option. Currently, 10 eligible employees have elected to take the early retirement option. The funding for these post employment benefits is provided on a pay-as-you-go basis. For the year ended June 30, 2007, the stipend and benefits expense for the early retirement program totaled \$212,451.

Current early retirees are covered by one of two policies, depending on their date of retirement.

Prior to July 1, 2002, the following early retirement policy was in place at the College:

Eligible employees are those who retire from the College on or after age 55 with at least 15 years of service and whose combined total of age and years of service is 75 or greater. Eligible employees are those full-time employees who are currently employed 75 percent of a calendar year or more. The eligible employee must be serving in a position which is funded out of education and general revenues or auxiliary revenues. The benefits include a semi-monthly stipend of 20.2% of the retiree's salary at the time of active employment for a period of 5 years. Health, dental, and life insurance will also continue for 5 years. These benefits are fully paid by the College.

In August 2002, the Board of Trustees adopted the following special retirement policy:

Employees may apply for special retirement if they are at least 56 years or older with a minimum of 15 years of full-time service at the College. To meet the fulltime service requirement, the employee must be a benefit-eligible salaried employee employed 75 percent of a calendar year or more. The employee must have an accumulation of 75 points based on the sum of the chronological age and years of service. For employees funded 50% or more by non-state funds (grants, auxiliaries, self-supporting enterprises), approval will be based on availability of on-going funds from the grant or enterprise.

The retirement package will be for a period of five years or until the retiree is eligible for full social security benefits, whichever occurs first. The employee will receive a stipend of 20% of the employee's base salary during the fiscal year in which retirement becomes effective. The stipend will not exceed the estimated maximum social security benefit to which the retiree is entitled.

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Employees will also continue to receive coverage in the group medical and dental insurance programs at the same level provided all full-time personnel for a period not to exceed five years or until the retiree becomes eligible for Medicare. Medical and dental coverage will terminate immediately at the time the retiree is eligible for any other medical or dental plan. In the case of death of the retiree all payments and benefits will terminate at the end of the month in which death occurs.

NOTE G: MUSEUM ASSETS

The College operates the CEU Prehistoric Museum in conjunction with Price City. The assets included in the Museum's collection are on loan from the Federal Government and private individuals. Since the College does not hold the title to the museum assets, they are not included on the Statement of Net Assets.

NOTE H: RISK MANAGEMENT

General Liability Insurance

The College maintains insurance coverage for general, automobile, personal injury, errors and omissions, employee dishonesty, and malpractice liability up to \$1 million per occurrence through policies administered by the Utah State Risk Management Fund. The College also insures its buildings, including those under construction, and contents against all insurable risks of direct physical loss or damage with the Utah State Risk Management Fund. This all-risk insurance coverage provides for repair or replacement of damaged property at a replacement cost basis subject to a deductible of \$1,000 per occurrence. All revenues from College operations, rental income for its residence halls, and tuition are insured against loss due to business interruption caused by fire or other insurable perils with the Utah State Risk Management Fund. All College employees are covered by worker's compensation insurance, including employer's liability coverage by the Worker's Compensation Fund of Utah.

NOTE I: CONSTRUCTION COMMITMENTS

At the end of fiscal year 2007, the College had four construction projects in progress:

- (1) SJC Library and Health Sciences (DFCM 04150620): \$6,247,682 outstanding, 45.7% of funds are College funds and 54.3% of funds are State funds appropriated to DFCM.
- (2) BDAC CTR Shower Repairs (DFCM 04152610): \$249,875 outstanding, 100% of funds are state funds appropriated to DFCM.

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- (3) Prehistoric Museum (DFCM 04253610): \$226,890 outstanding, 100% of funds are College funds.
- (4) BDAC Chilled Water System (DFCM 06162610): \$597,242 outstanding, 100% of funds are state funds appropriated to DFCM.

NOTE J: PLEDGES

Pledges of over \$2.3 million have been made through trusts, insurance policies, and estate plans. Of this amount, 54% of the gifts are unrestricted.

NOTE K: FUNCTIONAL CLASSIFICATION OF EXPENSES

The following schedule presents operating expenses by functional classification for the year ended June 30, 2007:

Instruction	\$ 8,801,346
Public service	433,978
Academic support	2,452,100
Student services	4,201,691
Institutional support	3,358,721
Operation and maintenance of plant	2,406,332
Scholarships	1,665,428
Auxiliary and service units	3,097,430
Depreciation	2,100,501
Total operating expenses	<u><u>\$ 28,517,527</u></u>

NOTE L: SUBSEQUENT EVENTS

The State Legislature passed a bill during the 2007 General Session that merged the Southeast Applied Technology College with the College. This merger became effective on July 1, 2007.