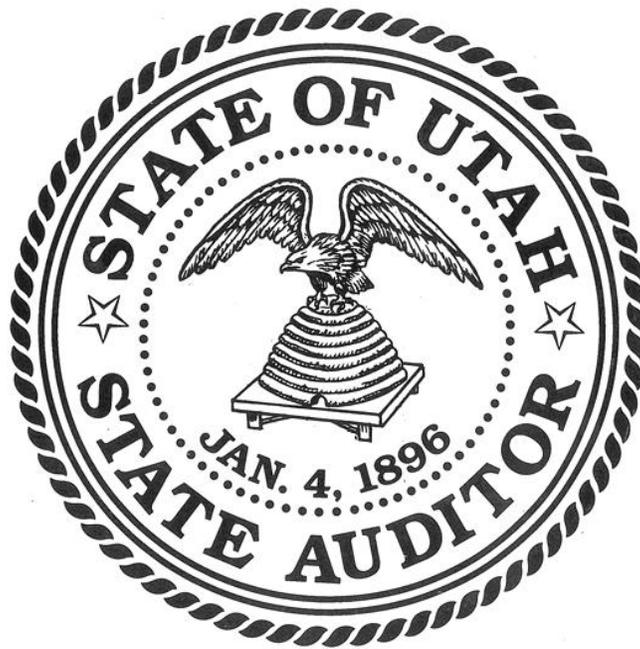


UTAH EDUCATIONAL SAVINGS PLAN

A Component Unit of the State of Utah

Financial Statements
and
Government Auditing Standards Report
For the Year Ended June 30, 2013

Report No. 13-15



OFFICE OF THE
UTAH STATE AUDITOR

UTAH EDUCATIONAL SAVINGS PLAN

A Component Unit of the State of Utah

Financial Statements
and
Government Auditing Standards Report
For the Year Ended June 30, 2013

Report No. 13-15

AUDIT TEAM:

Van Christensen, CPA, Audit Director
Scott Parke, CPA, Audit In-Charge

UTAH EDUCATIONAL SAVINGS PLAN
A COMPONENT UNIT OF THE STATE OF UTAH
FOR THE YEAR ENDED JUNE 30, 2013

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OFFICE OF THE
UTAH STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

To the Utah State Board of Regents,
The UHEAA Audit Committee
and
David L. Buhler, Commissioner of Higher Education

Report on the Financial Statements

We have audited the accompanying financial statements of the Utah Educational Savings Plan (UESP), a component unit of the State of Utah, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise UESP's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UESP as of June 30, 2013, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise UESP's basic financial statements. The accompanying supplemental schedules on pages 17 and 18 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013 on our consideration of UESP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UESP's internal control over financial reporting and compliance.

Office of the Utah State Auditor

Office of the Utah State Auditor
September 26, 2013

UTAH EDUCATIONAL SAVINGS PLAN

Management's Discussion and Analysis
For the Year Ended June 30, 2013

Introduction

The following discussion and analysis provides an overview of the financial position and activity of the Utah Educational Savings Plan (UESP) for the year ended June 30, 2013, with selected comparative information for the year ended June 30, 2012. This discussion and analysis has been prepared by management and should be read in conjunction with the financial statements and footnotes which follow this section.

UESP is a component unit of the State of Utah and was established in 1996 by Utah statute. UESP is designed to comply with Section 529 of the Internal Revenue Code of 1986, as amended. Section 529 allows states and state entities (and in limited circumstances, eligible educational institutions) to create, maintain and administer qualified tuition programs (529 plans) which are tax-advantaged savings vehicles to help individuals save for the costs of higher education. UESP is administered and managed by the Utah State Board of Regents as set forth in *Utah Code*, Title 53B, Chapter 12.

Individuals, trusts and business entities can sign an agreement to become UESP Account Owners and invest in UESP by contributing to investment options. UESP uses the Account Owners' moneys to invest in the Public Treasurers' Investment Fund (PTIF), Vanguard Mutual Funds, Dimensional Mutual Funds and an FDIC-insured savings account.

The investments of the Account Owners and of UESP in the PTIF, Vanguard, and Dimensional funds are not guaranteed by the State of Utah, UESP, the Board of Regents, the Utah Higher Education Assistance Authority, the Federal Deposit Insurance Corporation (FDIC) or any other federal or state governmental agency or any of the employees or directors of any such entities. However, the investments of the Account Owners in the FDIC-insured savings account are covered by FDIC insurance on a pass-through basis with certain limits being applicable.

The value of the Account Owners' investments with UESP may vary depending on market conditions and the performance of the investment option selected and may be more or less than the amount invested. The Account Owners could lose money. Investments in UESP have not been registered with the United States Securities and Exchange Commission.

Financial Highlights

The assets held in trust at UESP exceeded outstanding liabilities by \$5.87 billion as of June 30, 2013. UESP received approximately \$691 million in program investments during the year ended June 30, 2013. UESP recorded a net increase in the fair value of investments of \$557 million and interest and dividend income of \$119 million. Account Owners withdrew \$209 million and UESP incurred \$6.2 million of administrative costs.

Using the Financial Statements

The financial statements consist of two primary parts – management's discussion and analysis (this section) and the financial statements. The financial statements are composed of a Statement of Fiduciary Net Position, a Statement of Changes in Fiduciary Net Position and notes that explain some of the information in the financial statements and provide more detailed data.

UTAH EDUCATIONAL SAVINGS PLAN

Management's Discussion and Analysis
For the Year Ended June 30, 2013

Statement of Fiduciary Net Position

The Statement of Fiduciary Net Position presents information on UESP's administrative and fiduciary assets and liabilities, with the difference between the assets and liabilities reported as fiduciary net position held in trust.

A summarized comparison of UESP's assets, liabilities and net position at June 30, 2013, and 2012 is shown below:

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 890,144	\$ 1,157,415
Investments	5,871,484,740	4,718,864,438
Capital assets	335,795	259,245
Other receivables	8,268	100
Total assets	<u>5,872,718,947</u>	<u>4,720,281,198</u>
LIABILITIES		
Current liabilities	562,292	688,046
Noncurrent liabilities	79,688	59,597
Total liabilities	<u>641,980</u>	<u>747,643</u>
TOTAL FIDUCIARY NET POSITION	<u>\$ 5,872,076,967</u>	<u>\$ 4,719,533,555</u>

Cash, cash equivalents and investments make up over 99% of total assets. Total assets increased \$1.15 billion or 24%, primarily as a result of new program investments by Account Owners and an increase in the fair value of investments. Current liabilities consist of accounts payable and the current portion of accrued employee vacation. Noncurrent liabilities consist of the noncurrent portion of accrued employee vacation. Total liabilities decreased by approximately \$106,000. Total fiduciary net position increased \$1.15 billion or 24%.

Fiduciary net position represents the residual interest in UESP's assets after liabilities are deducted. They are held in trust for three separate funds as follows:

Program Fund – All moneys invested by Account Owners in UESP are accounted for in the Program Fund. The moneys are intended to be used by the Account Owners to pay qualified higher educational expenses on behalf of designated beneficiaries. Fiduciary net position held in trust for the Program Fund at June 30, 2013, was \$5,845,082,309.

UTAH EDUCATIONAL SAVINGS PLAN

Management's Discussion and Analysis
For the Year Ended June 30, 2013

Endowment Fund – The Endowment Fund may be used to enhance the savings of low income Account Owners, to fund scholarships, to offer other college savings incentives or to be transferred to the Administrative Fund. Endowment Fund earnings not accruing to a beneficiary under an account agreement or not transferred to the Administrative Fund shall be reinvested in the Endowment Fund. The Endowment Fund had a fiduciary net position balance of \$22,338,179 at June 30, 2013.

Administrative Fund – Funds generated by fees on Account Owner investments are maintained in the Administrative Fund for the purpose of paying operating costs associated with administering UESP. As of June 30, 2013, the Administrative Fund had a fiduciary net position balance of \$4,656,479.

Statement of Changes in Fiduciary Net Position

The Statement of Changes in Fiduciary Net Position presents the results of operations for the year ended June 30, 2013 for UESP. A condensed Statement of Changes in Fiduciary Net Position is presented below:

	<u>2013</u>	<u>2012</u>
ADDITIONS		
Program investments	\$ 691,483,620	\$ 565,129,247
Investment gain / (loss) plus interest and dividends	676,611,598	110,820,421
Scholarship sponsorships	25,000	2,000
Total additions	<u>1,368,120,218</u>	<u>675,951,668</u>
DEDUCTIONS		
Withdrawals	209,390,216	169,816,174
Administrative and support services	6,186,590	5,968,332
Total deductions	<u>215,576,806</u>	<u>175,784,506</u>
CHANGES IN NET POSITION HELD IN TRUST	1,152,543,412	500,167,162
NET POSITION - Beginning of Year	<u>4,719,533,555</u>	4,219,366,393
NET POSITION - End of Year	<u><u>\$ 5,872,076,967</u></u>	<u><u>\$ 4,719,533,555</u></u>

The Statement of Changes in Fiduciary Net Position reflects an increase in net position of \$1.15 billion. An explanation of the significant factors causing the change in fiduciary net position follows:

Program investments – For the fiscal year ended June 30, 2013, UESP received investment contributions in the amount of \$691 million. This includes contributions to previously existing UESP accounts as well as new accounts opened during the fiscal year.

UTAH EDUCATIONAL SAVINGS PLAN

Management's Discussion and Analysis

For the Year Ended June 30, 2013

Investment gain / (loss) plus interest and dividends – For the period ended June 30, 2013, the net investment gain was \$676 million. Of this amount, \$119 million was received for interest and dividends and \$557 million resulted from the increase in the fair value of the investments.

Withdrawals – For the year ended June 30, 2013, withdrawals by Account Owners totaled approximately \$209 million. The increase over 2012 was due to an increase in withdrawals to cover the college expenses of plan beneficiaries.

Currently Known Conditions Expected to Have a Significant Effect on Financial Position or Results of Operations

UESP is not aware of any additional facts, decisions or conditions that are expected to have a significant effect on the financial position or results of operations.

Requests for Information

This financial report is designed to provide a general overview of UESP's finances for any interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Associate Executive Director for Accounting and Finance, Utah Higher Education Assistance Authority, Board of Regents Building, The Gateway, 60 South 400 West, Salt Lake City, Utah 84101-1284.

UTAH EDUCATIONAL SAVINGS PLAN

Statement of Fiduciary Net Position

June 30, 2013

ASSETS

Current Assets

Cash and cash equivalents (Note 2)	\$ 890,144
Investments (Note 2)	5,871,484,740
Other receivables	8,268
Total Current Assets	<u>5,872,383,152</u>

Noncurrent Assets

Capital assets, less accumulated depreciation of \$977,626 (Note 3)	335,795
Total Noncurrent Assets	<u>335,795</u>

TOTAL ASSETS 5,872,718,947

LIABILITIES

Current Liabilities

Accounts payable	183,697
Payable to affiliate (Note 6)	237,887
Accrued vacation (Note 4)	122,481
Line of credit	18,227
Total Current Liabilities	<u>562,292</u>

Noncurrent Liabilities

Accrued vacation (Note 4)	79,688
Total Noncurrent Liabilities	<u>79,688</u>

TOTAL LIABILITIES 641,980

FIDUCIARY NET POSITION - Held in trust for:

Program Fund	5,845,082,309
Endowment Fund	22,338,179
Administrative Fund	4,656,479

TOTAL FIDUCIARY NET POSITION \$ 5,872,076,967

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

UTAH EDUCATIONAL SAVINGS PLAN

Statement of Changes in Fiduciary Net Position For the Year Ended June 30, 2013

ADDITIONS

Program investments (Note 5)	\$ 691,483,620
Interest and dividends (Note 2)	119,371,474
Net increase in fair value of investments (Note 2)	557,240,124
Scholarship sponsorships	25,000
TOTAL ADDITIONS	<u>1,368,120,218</u>

DEDUCTIONS

Withdrawals (Note 5)	209,390,216
Administrative and support services (Note 6)	6,186,590
TOTAL DEDUCTIONS	<u>215,576,806</u>

CHANGES IN NET POSITION HELD IN TRUST

1,152,543,412

NET POSITION - Beginning of Year	<u>4,719,533,555</u>
NET POSITION - End of Year	<u>\$ 5,872,076,967</u>

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

UTAH EDUCATIONAL SAVINGS PLAN

Notes to Financial Statements
For the Year Ended June 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Utah Educational Savings Plan (UESP) was formed in April 1996 for the purpose of providing Account Owners with an opportunity to save for the future educational expenses of designated beneficiaries. UESP began operations June 30, 1996 and is a component unit of the State of Utah as defined by Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. The board of directors of UESP is the State Board of Regents (the Board) acting in its capacity as the Utah Higher Education Assistance Authority under *Utah Code*, Title 53B, Chapter 12. Because the State of Utah appoints the majority of the Board and because UESP is fiduciary in nature, GASB requires the financial activity of UESP to be included in the State's *Comprehensive Annual Financial Report* as a Private Purpose Trust Fund.

Fund Accounting – UESP maintains accounting records under the fund accounting concept. The funds are separate sets of self-balancing accounts set up in accordance with the authorizing act. The following funds are administered by UESP:

Program Fund – All moneys invested in accordance with the account agreements are accounted for in the Program Fund. The moneys are invested in accordance with the Utah Money Management Act and UESP investment policy. The moneys are intended to be used to pay qualified higher educational expenses on behalf of designated beneficiaries. Under current federal and state law, earnings on contributions made to UESP accounts are not subject to federal or Utah State income tax if the funds are used for the qualified higher education expenses of the beneficiary. At June 30, 2013, UESP held investments for 226,119 accounts under the Program Fund.

Internal Revenue Code, Section 529 requires UESP to set a limit on the maximum account balance for a single beneficiary. UESP's current limit is \$397,000. This reflects the potential costs of an undergraduate and graduate degree, including room and board.

Endowment Fund – The Endowment Fund may be used to enhance the savings of low income Account Owners, to fund scholarships, to offer other college savings incentives or to be transferred to the Administrative Fund. Endowment Fund earnings not accruing to a beneficiary under an account agreement or not transferred to the Administrative Fund shall be reinvested in the Endowment Fund.

Administrative Fund – Funds generated by fees and transfers authorized by the Board are maintained in this fund. Transfers may be made from the Program Fund to the Administrative Fund to pay operating costs associated with administering UESP as allowed under Title 53B-8a-103 through 53B-8a-105 of the *Utah Code* and as included in the budget approved by the Board.

UTAH EDUCATIONAL SAVINGS PLAN

Notes to Financial Statements
For the Year Ended June 30, 2013

Basis of Accounting – UESP follows all applicable Governmental Accounting Standards Board pronouncements. Also, the accounting and reporting policies of UESP conform to generally accepted accounting principles and follow the accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. UESP's funds are accounted for on an economic resources measurement focus. All assets and liabilities associated with UESP are included on the statement of fiduciary net position.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions of net position during the reporting period. Actual results could differ from those estimates.

Capital Assets – Capital assets are stated at cost – net of accumulated depreciation. UESP capitalizes assets that exceed a \$5,000 threshold and have an estimated useful life of greater than one year. Depreciation is provided over the estimated useful lives, ranging from 3 to 10 years, using the straight-line method.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

As authorized by *Utah Code*, Title 53B, Chapter 8a, UESP may hold, deposit, and invest program fund, administrative fund, and endowment fund money in one or more of the following:

- The Public Treasurers' Investment Fund
- Mutual funds, securities, or other investments registered with the United States Securities and Exchange Commission
- Federally insured depository institutions
- Stable value products, including guaranteed investment contracts, guaranteed interest contracts, and guaranteed insurance contracts
- Any investments that are determined by the board to be appropriate and that would be authorized under the provisions of Section 51-7-11 or rules of the State Money Management Council applicable to gift funds

UTAH EDUCATIONAL SAVINGS PLAN

Notes to Financial Statements
For the Year Ended June 30, 2013

UESP's cash, cash equivalents and investments as of June 30, 2013, are listed below:

<u>Cash, Cash Equivalents and Investments</u>	<u>Fair Value</u>
Bank Deposits	\$ 890,144
Utah Public Treasurers' Investment Fund	113,011,405
FDIC-Insured Savings	606,240,675
Domestic Equity Mutual Funds	3,111,107,691
International Equity Mutual Funds	692,468,229
Bond Mutual Funds	1,348,656,740
	<hr/>
Total	<u>\$ 5,872,374,884</u>

Custodial Credit Risk (Deposits) – The risk that, in the event of a bank failure, Bank Deposits not covered by depository insurance may not be returned. UESP follows the requirements of the Utah Money Management Act regarding Bank Deposits, but does not have a formal deposit policy beyond what is required by the Act. Subject to the application of the bank and FDIC rules and regulations, FDIC insurance is provided for UESP's Bank Deposits up to \$250,000 for each bank utilized and for individual UESP Account Owner deposits. As of June 30, 2013, all of UESP's bank balances of \$3,722,162 were insured. For information on investments in the FDIC-insured savings account, see the following paragraph titled "FDIC-Insured Savings."

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. UESP's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with Rule 2 of the Utah Money Management Council. Rule 2 of the Money Management Council does not allow the dollar-weighted average maturity of fixed-income securities to exceed ten years. At June 30, 2013, UESP's fixed-income mutual funds had an average maturity ranging from 0.84 to 7.4 years. Also, the underlying investments in UESP's other mutual funds and the Utah Public Treasurers' Investment Fund had average maturities of less than one year.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. UESP's policy for reducing its exposure to credit risk is to comply with Rule 2 of the Utah Money Management Council as previously discussed. At June 30, 2013, UESP's investments in bond mutual funds and the Utah Public Treasurers' Investment Fund were not rated by any nationally recognized statistical rating organizations registered with the Securities and Exchange Commission (SEC).

Foreign Currency Risk – Investments in international securities are naturally subject to exchange rate risk where relative currency values vary. UESP does not have a formal investment policy that limits foreign currency transactions as a means of managing its exposure to foreign currency risk beyond what is required by Rule 2 of the Utah Money Management Council.

UTAH EDUCATIONAL SAVINGS PLAN

Notes to Financial Statements
For the Year Ended June 30, 2013

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

The PTIF is not registered with the SEC. 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 Account Owners 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.

FDIC-Insured Savings – Investments in the FDIC-insured savings account earn varying rates of interest which are indexed to the PTIF. Contributions to and earnings on the FDIC-insured savings account are insured by the FDIC on a pass-through basis to each Account Owner up to the maximum amount set by federal law, currently \$250,000. The amount of FDIC insurance provided to an individual is based on the total of (1) the value of an Account Owner's investments in UESP's FDIC-insured savings account plus (2) the value of other accounts held (if any) at Zions First National Bank (the "Bank"), as determined by the Bank and by FDIC regulations. It is the Account Owner's responsibility to determine how investments in the savings account would be aggregated with other investments at the Bank for purposes of FDIC insurance.

UTAH EDUCATIONAL SAVINGS PLAN

Notes to Financial Statements
For the Year Ended June 30, 2013

3. CAPITAL ASSETS

Activity for the year ended June 30, 2013, was as follows:

Description:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Computer software	\$ 608,538	\$ 41,827	\$ (14,186)	\$ 636,179
Computer hardware	350,321	199,162	-	549,483
Office equipment	127,759	-	-	127,759
Total at historical cost	<u>1,086,618</u>	<u>240,989</u>	<u>(14,186)</u>	<u>1,313,421</u>
Less accumulated depreciation:				
Computer software	(605,515)	(6,042)	14,186	(597,371)
Computer hardware	(144,039)	(140,914)	-	(284,953)
Office equipment	(77,819)	(17,483)	-	(95,302)
Total depreciation	<u>(827,373)</u>	<u>(164,439)</u>	<u>14,186</u>	<u>(977,626)</u>
Capital assets, net	<u>\$ 259,245</u>	<u>\$ 76,550</u>	<u>\$ -</u>	<u>\$ 335,795</u>

4. CHANGES IN LONG-TERM LIABILITIES

Activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Accrued vacation	\$165,452	\$142,572	\$(105,855)	\$202,169	\$ 122,481

5. PROGRAM INVESTMENTS AND WITHDRAWALS

Funds deposited to UESP accounts are invested in accordance with the account agreements and UESP investment policy. For the year ended June 30, 2013, UESP received deposits in the amount of \$691,483,620 and Account Owners withdrew \$209,390,216 from the Program Fund.

UTAH EDUCATIONAL SAVINGS PLAN

Notes to Financial Statements
For the Year Ended June 30, 2013

6. RELATED PARTY TRANSACTIONS

Other programs of the Board, the State Board of Regents Student Loan Purchase Program and the Student Loan Guarantee Program, provide office facilities, administrative services and computer services to UESP. UESP was charged rent and fees for services by these two programs totaling \$634,808 for the year ended June 30, 2013. Payables to these programs, including expense reimbursements, at June 30, 2013, were \$103,752.

The University of Utah provides payroll, benefits and other administrative services for UESP. UESP reimbursed the University in the amount of \$3,066,397 for the year ended June 30, 2013. Payables to the University of Utah at June 30, 2013, were \$134,135.

7. RISK MANAGEMENT

As a State entity, UESP participates in the Utah State Risk Management Fund (the Fund). UESP pays an annual premium for participation in the Fund. Through the Fund, UESP has both property and liability coverage. The Fund provides property coverage through a combination of self-insurance and private carriers. The Fund provides liability coverage through self-insurance and private carriers up to \$10,000,000 per occurrence.

SUPPLEMENTAL SCHEDULES

Combining Financial Statements

UTAH EDUCATIONAL SAVINGS PLAN

Combining Statement of Fiduciary Net Position

June 30, 2013

	Program Fund	Endowment Fund	Administrative Fund	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 728,250	\$ -	\$ 161,894	\$ 890,144
Investments	5,845,396,798	22,338,179	3,749,763	5,871,484,740
Due (to) from related fund	(1,024,512)	-	1,024,512	-
Other receivables	-	-	8,268	8,268
Total Current Assets	5,845,100,536	22,338,179	4,944,437	5,872,383,152
Noncurrent Assets				
Capital assets, less accumulated depreciation of \$977,626	-	-	335,795	335,795
Total Noncurrent Assets	-	-	335,795	335,795
 TOTAL ASSETS	 5,845,100,536	 22,338,179	 5,280,232	 5,872,718,947
LIABILITIES				
Current Liabilities				
Accounts payable	-	-	183,697	183,697
Payable to affiliate	-	-	237,887	237,887
Accrued vacation	-	-	122,481	122,481
Line of credit	18,227	-	-	18,227
Total Current Liabilities	18,227	-	544,065	562,292
Noncurrent Liabilities				
Accrued vacation	-	-	79,688	79,688
Total Noncurrent Liabilities	-	-	79,688	79,688
 TOTAL LIABILITIES	 18,227	 -	 623,753	 641,980
FIDUCIARY NET POSITION - Held in trust for:				
Program Fund	5,845,082,309	-	-	5,845,082,309
Endowment Fund	-	22,338,179	-	22,338,179
Administrative Fund	-	-	4,656,479	4,656,479
 TOTAL FIDUCIARY NET POSITION	 \$ 5,845,082,309	 \$ 22,338,179	 \$ 4,656,479	 \$ 5,872,076,967

UTAH EDUCATIONAL SAVINGS PLAN
Combining Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2013

	<u>Program Fund</u>	<u>Endowment Fund</u>	<u>Administrative Fund</u>	<u>Total</u>
ADDITIONS				
Program investments	\$ 691,483,620	\$ -	\$ -	\$ 691,483,620
Interest and dividends	119,219,617	99,955	51,902	119,371,474
Net increase in fair value of investments	557,191,737	22,930	25,457	557,240,124
Fee income (expense)	(11,287,898)	-	11,287,898	-
Scholarship sponsorships	-	-	25,000	25,000
Transfers in (out)	-	7,000,000	(7,000,000)	-
TOTAL ADDITIONS	<u>1,356,607,076</u>	<u>7,122,885</u>	<u>4,390,257</u>	<u>1,368,120,218</u>
DEDUCTIONS				
Withdrawals	209,390,216	-	-	209,390,216
Administrative and support services	-	-	6,186,590	6,186,590
TOTAL DEDUCTIONS	<u>209,390,216</u>	<u>-</u>	<u>6,186,590</u>	<u>215,576,806</u>
CHANGES IN NET POSITION HELD IN TRUST	1,147,216,860	7,122,885	(1,796,333)	1,152,543,412
NET POSITION - Beginning of Year	<u>4,697,865,449</u>	<u>15,215,294</u>	<u>6,452,812</u>	<u>4,719,533,555</u>
NET POSITION - End of Year	<u>\$ 5,845,082,309</u>	<u>\$ 22,338,179</u>	<u>\$ 4,656,479</u>	<u>\$ 5,872,076,967</u>



OFFICE OF THE
UTAH STATE AUDITOR

**INDEPENDENT STATE AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Utah State Board of Regents,
The UHEAA Audit Committee
and
David L. Buhler, Commissioner of Higher Education

We have audited, in accordance with the 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, the basic financial statements of the Utah Educational Savings Plan (UESP), a component unit of the State of Utah, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise UESP's basic financial statements, and have issued our report thereon dated September 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered UESP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of UESP's internal control. Accordingly, we do not express an opinion on the effectiveness of UESP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether UESP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of the Utah State Auditor

Office of the Utah State Auditor
September 26, 2013