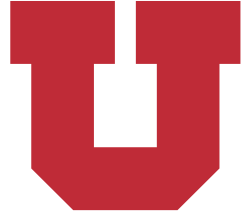


2005 Annual Financial Report

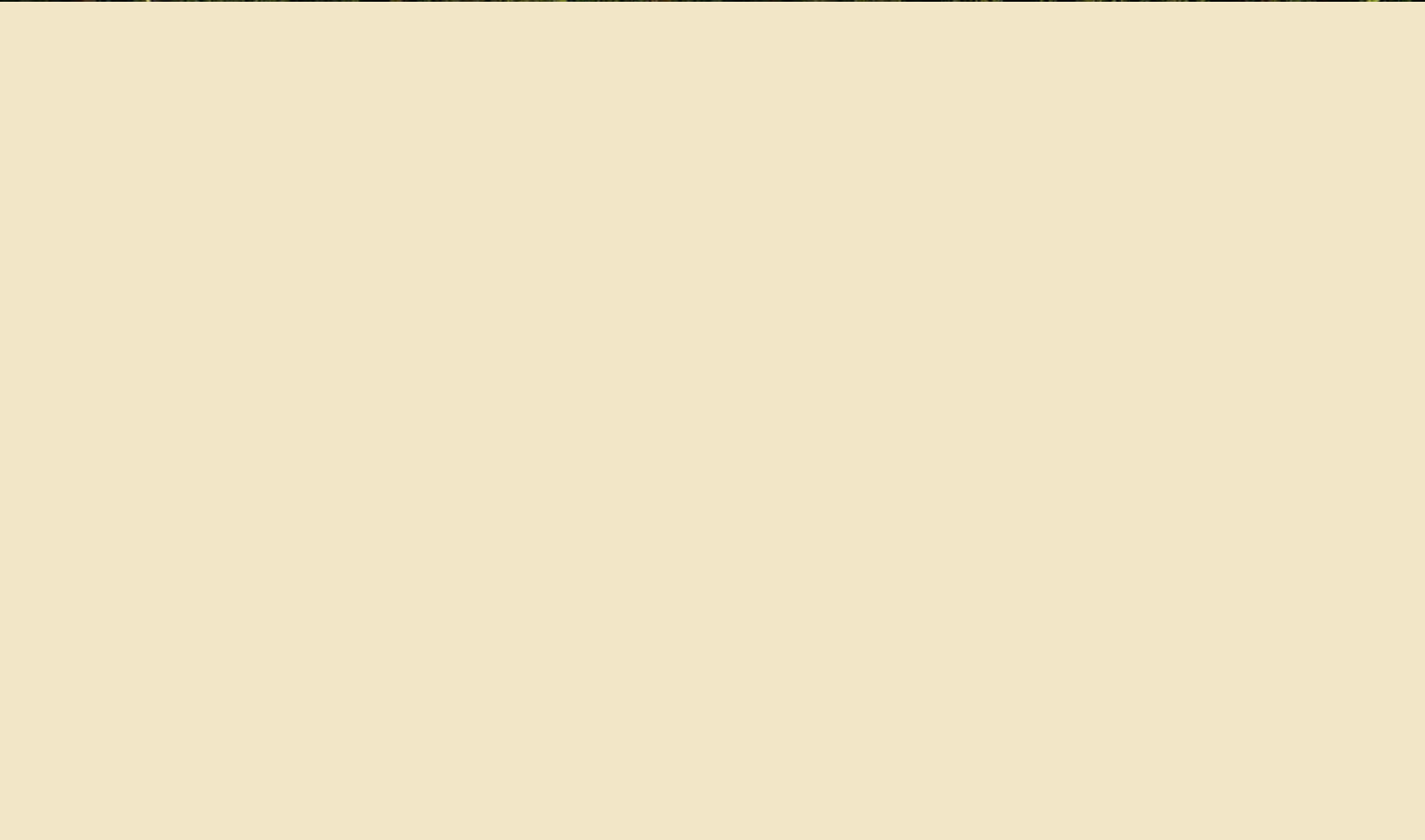
THE UNIVERSITY OF UTAH

A Component Unit of the State of Utah





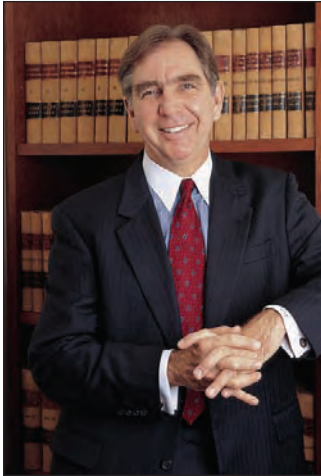
THE
UNIVERSITY
OF UTAH





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Message from the President

I am pleased to present this financial report for the University's 2005 fiscal year. In a sense, it offers a measure of what can grow from shared vision and dedicated effort.

Just three years after pioneers arrived in the Salt Lake Valley, while still living in primitive housing and barely eking out a living from the land, they had the audacity to create a university. They commenced work on the Salt Lake Temple, a building to attend to matters of the spirit; they created irrigation ditches and laid out plots for homes and gardens to attend to matters of the body; and they laid the foundation of a great university to attend to matters of the mind. The University of Utah today is testimony to their vision. It is now a major resource for the state, as an educator of Utah's workforce, an employer, a vital source of cultural enrichment, and an originator of new business.

This year has again been exceptional for the achievements of our faculty. I cite just a few of what could be hundreds of examples:

- Dr. Frank Brown's work that revolutionized our understanding of the dates of human fossils;
- Dr. Dennis Bramble's novel study of the influence of early human running on anatomy;
- Dr. Duncan Metcalfe's exciting work as lead scientist on the Range Creek archeological site;
- Prize-winning geneticist Dr. Mario Capecchi and his colleagues' work on identification of the genetic dimensions of a deadly form of muscle cancer in children;
- Dr. Peggy Battin's remarkable work exploring the ethical issues related to end of life;
- Dr. Lyle Campbell's efforts to document and preserve the nearly extinct languages of indigenous peoples of Central America;
- Dr. Vince Cheng's worthy investigation of the challenging issues surrounding culture and identity; and
- Geologist Dr. Marjorie Chan's authorship of a study suggesting the presence of underground water on Mars.

The past year was an exceptional one for our student-athletes. In fact, it was the best athletic year in the history of the University! We witnessed our football team win the Fiesta Bowl, our basketball team make it to the Sweet Sixteen, and had the #1 draft picks in both football and basketball—an unprecedented accomplishment. No less notable were the achievements of our Womens Gymnastics, Women's Volleyball, Women's Soccer, Cross Country Skiing, and other teams. I applaud our student-athletes for their excellence, and for bringing excitement and pride into our hearts and homes.

Our state continues to benefit from the efforts and expertise of dedicated University of Utah health care professionals and educators. Our renowned University Hospital, the Huntsman Cancer Institute, Huntsman Cancer Hospital, and the Moran Eye Center bring world-class clinical care and research to Utahns. The Orthopaedic Center, which opened last fall in Research Park, offers the latest surgical procedures, pain management techniques, and technology in a facility that is among the best in the country.

This year has also seen significant physical growth on campus. During the year 10 new facilities or major renovations were in the planning or construction stages. For example:

- The Spencer F. and Cleone P. Eccles Health Sciences Education Building was opened. This state-of-the-art classroom building supports education in the colleges of nursing and pharmacy, and the School of Medicine.
- Work commenced on construction of the Warnock Engineering Building, a facility that will benefit future generations of students in engineering and related disciplines.
- A major renovation of the Marriott Library commenced with \$48 million of funding from the 2005 legislature. The renovation will ensure the building meets safety codes for earthquakes and other hazards. It will also enhance the library's place as an intellectual and technological hub for students and faculty. This renovation is an essential investment that will ensure one of our state's most valuable assets continues to contribute to the betterment of the state.

We are deeply indebted to the Governor, the legislature and its leaders, and numerous private donors for their support of these and other projects. We are keenly aware of the competing demands for limited resources, and are grateful for their commitment to this enterprise.

Today, as in the beginning, the University faces many challenges and many opportunities. I am inspired by the great tradition in Utah of faith in the power of education. John A. Widstoe, president of the University from 1916 to 1921, once expressed his personal hope "to see this institution enter into the very life of our state; to help solve its problems, to point its way, to help bear its burdens as well as to share in its prosperity . . ." We are excited to continue in this tradition.

A handwritten signature in black ink that reads "Michael K. Young". The signature is written in a cursive, flowing style.



Auston G. Johnson, CPA
UTAH STATE AUDITOR

STATE OF UTAH
Office of the State Auditor

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

DEPUTY STATE AUDITOR:
Joe Christensen, CPA

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

Independent State Auditor's Report

To the Board of Trustees, Audit Committee,
and
Michael K. Young, President
University of Utah


We have audited the accompanying basic financial statements of the University of Utah (hereinafter referred to as the "University"), a component unit of the State of Utah, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Utah Hospital and its related institute and clinics or the University's component units, which represent approximately 22% (\$534,675,000) of total assets and 42% (\$819,106,000) of total revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University Hospital and the component units, is based on the reports of the other auditors. The prior year partial comparative information has been derived from the University's 2004 financial statements and, in our report dated October 1, 2004, we expressed an unqualified opinion, based on our audit and the reports of other auditors, 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. The financial statements of the component units were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2005, 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 September 30, 2005 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We 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 long horizontal flourish extending to the right.

Auston G. Johnson, CPA
Utah State Auditor
September 30, 2005



Management's Discussion and Analysis

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the University of Utah (University) for the year ended June 30, 2005, with selected comparative information for the year ended June 30, 2004. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University is a comprehensive public institution of higher learning with approximately 29,000 students, 2,300 faculty members and more than 20,000 supporting staff. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels, through a framework of 15 schools, colleges and divisions, and contributes to the state and nation through related research and public service programs. The University also maintains a prestigious health care complex through its University of Utah Hospitals and Clinics (UUHC). The UUHC consists of three hospitals and numerous specialty clinics. The UUHC is an integral part of the University's health care system that also includes the University's School of Medicine and the Colleges of Health, Nursing, and Pharmacy. The University's health care system has a tradition of excellence in teaching, advancement of medical science and patient care, consistently ranking among the best health care systems in the western United States.

The University consistently ranks as one of the nation's top universities by various measures of quality, both in general academic terms and in terms of strength of offerings in specific academic disciplines and professional subjects. Excellence in research is another crucial element in the University's high ranking among educational institutions. Research is central to the University's mission and permeates its schools and colleges.

In addition to the academic schools, colleges, and departments, the University operates the University of Utah Research Foundation (UURF), a separately incorporated entity that specializes in applied research, the transfer of patented technology to business entities, leasing and administration of Research Park (a research park located on land owned by the University), and the leasing of certain buildings. Also, a wholly-owned, separately incorporated enterprise, the Associated Regional and University Pathologists, Inc. (ARUP) provides pathology services to regional and national customers.

FINANCIAL HIGHLIGHTS

The University's financial position remained strong at June 30, 2005, with assets of \$2.5 billion and total liabilities of \$.6 billion. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased by \$178.2 million to \$1.9 billion at June 30, 2005.

Changes in net assets represent the total activity of the University, which results from all revenues, expenses, gains and losses, and are summarized for the years ended June 30, 2005 and 2004 in *Figure 1*.

Fiscal year 2005 revenues before change in fair value of investments increased 9.4%, or \$169.5 million, while expenses increased 7.0%, or \$119.1 million. This resulted in a net gain before changes in fair value of investments of \$149.8 million for fiscal year 2005, and \$99.4 million for fiscal year 2004.

The University invests its endowment funds to maximize total return over the long term, within an appropriate level of risk. The success of this long-term investment strategy is evidenced by returns averaging 8.4% during the past ten years.

USING THE FINANCIAL STATEMENTS

The University's financial report is prepared in accordance with Governmental Accounting Standards Board (GASB) principles and includes three financial statements: the Statement of Net Assets; the Statement of

Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

Revenues and expenses are categorized as operating or nonoperating and other net asset additions as capital contributions or additions to permanent endowments. Significant recurring sources of the University's revenues, including state appropriations, gifts and investment income, are considered nonoperating, as defined by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Nonoperating revenues totaled \$319.7 million and \$309.5 million for the years ended June 30, 2005 and 2004, respectively. Nonoperating expenses, which include interest expense, totaled \$26.2 million and \$16.5 million for the years ended June 30, 2005 and 2004, respectively.

Also, as required by GASB Statement No. 34, scholarships and fellowships applied to student accounts are shown as a reduction of student tuition and fee revenues, while stipends and other payments made directly to students continue to be presented as scholarship and fellowship expenses. For the years ended June 30, 2005 and 2004, scholarship and fellowship expenses totaled \$21.3 million and \$21.1 million, respectively. In addition, scholarships and fellowships in the amount of \$13.6 million and \$12.1 million for the years ended June 30, 2005 and 2004, are reported as a reduction of tuition and fees and auxiliary enterprises revenue.

In addition, other appropriate revenue items have been reduced by bad debt expense incurred during each fiscal year.

Figure 1.

	<u>2005</u>	<u>2004</u>
	(in thousands)	
Total revenues before change in fair value of investments	\$1,976,472	\$1,807,007
Total expenses	<u>1,826,662</u>	<u>1,707,576</u>
Increase in net assets before change in fair value of investments	149,810	99,431
Increase in fair value of investments	<u>28,429</u>	<u>37,994</u>
Increase in net assets	<u>\$ 178,239</u>	<u>\$ 137,425</u>

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities is net assets and is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values except for capital assets, which are stated at historical cost less an allowance for depreciation.

A summarized comparison of the University's assets, liabilities and net assets at June 30, 2005 and 2004 is shown in *Figure 2*.

A review of the University's Statement of Net Assets at June 30, 2005 and 2004, shows that the University continues to build upon its strong financial foundation. This strong financial position reflects the prudent utilization of its financial resources, including careful cost controls, management of its endowment funds, utilization of debt and adherence to its long range capital plan for the maintenance and replacement of the physical plant.

Current assets consist primarily of cash, operating investments, trade receivables and



inventories. Current assets represent approximately 5.8 months of total operating expenses (excluding depreciation). Current cash and investments for capital and student loan activities totaled \$130.8 million at June 30, 2005 and \$138.0 million at June 30, 2004.

Figure 2.

	2005	2004
	(in thousands)	
Current assets	\$ 822,181	\$ 652,611
Noncurrent assets		
Endowments and other investments	473,133	532,016
Receivables	57,628	56,669
Capital assets, net	1,094,780	1,025,401
Other	18,981	20,300
Total assets	<u>2,466,703</u>	<u>2,286,997</u>
Current liabilities	243,182	251,754
Noncurrent liabilities	360,816	350,777
Total liabilities	<u>603,998</u>	<u>602,531</u>
Net assets	<u>\$1,862,705</u>	<u>\$1,684,466</u>

Receivables increased from \$188.1 million at June 30, 2004 to \$213.9 million at June 30, 2005.

Current liabilities consist primarily of trade accounts, accrued compensation, deposits, and other liabilities, which totaled \$243.2 million at June 30, 2005, as compared to \$251.8 million at June 30, 2004. Current liabilities also include deferred revenue, and the current portion of bonds payable. Total current liabilities decreased \$8.6 million during fiscal year 2005.

ENDOWMENT AND SIMILAR INVESTMENTS

The University's endowment funds consist of true endowments, term endowments, and quasi-endowments. True endowments (also known as permanent endowments) are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donor. Term endowment funds are similar to true endowments, except that, upon the passage of a stated period of time or the occurrence of a particular event, all or part of the donation may be expended. Quasi-endowments consist of institutional funds that have been allocated by the University for long-term investment purposes, although such funds are not subject to donor restrictions requiring the University to preserve the principal in perpetuity. Programs supported by endowment funds include scholarships, fellowships, professorships, research efforts and other important programs and activities.

The University of Utah endowment pool returned 10.6% for the year ended June 30, 2005 compared to 16.9% for the year ended June 30, 2004. These results reflect the heavy weighting of equities in the asset allocation of the pool and compare favorably to broad indexes such as the S&P 500 and Lehman Brothers Aggregate Bond (6.3% and 6.8% gain, respectively, for fiscal year 2005). The net gain on the endowment pool for the year ended June 30, 2005 totaled \$26.3 million compared to a



gain of \$38.5 million for the year ended June 30, 2004.

Endowment funds are invested to maximize long-term results. Because of the volatility in the equity markets, the University Investment Advisory Committee approved recommended changes to the University's asset allocation plan effective July 1, 2002. By approving the changes, the Committee is striving to achieve broad diversification with the long-term goal of earning maximum returns within an acceptable risk range for investment of the University's endowment funds.

Endowment funds invested in the University's endowment pool are invested on a unit basis similar to mutual funds where each new dollar buys a number of shares in the pool. The pool is subject to a spending policy, which determines a distribution rate of return that will be used to allocate funds to University departments from the growth portion of the endowment pool. The



purpose of the spending policy is to establish a distribution rate that over time will generate returns adequate to continue support for future expenses in perpetuity assuming moderate levels of inflation. During the year ended June 30, 2005, the spending policy was 4.0% of the twelve quarter moving average of unit market values. Endowment pool income used in operations was \$11.6 million in fiscal year 2005. The amount allocated to operations exceeded dividends and interest earned on pool investments by \$5.2 million.

Since endowment funds are invested for long-term results rather than short-term annual returns, it is important to reflect on the longer investment horizon. Over the past ten years, the University's endowment pool has earned an average total return of 8.4%, paid out an average of 4.3%, and reinvested the balance representing an average of 4.1%. The reinvested funds enabled higher balances,

thus yielding greater returns to keep pace with inflation of program expenses. Endowments provide crucial support for the University's quality academic programs and accessibility to these programs for all students.

Gifts to the endowment funds at the University totaled \$14.6 million and \$11.4 million for the fiscal years 2005 and 2004, respectively.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic and research programs is the development and renewal of its capital assets. The University continues to implement its long-range plan to modernize its complement of older teaching and research facilities, balanced with new construction.

Capital additions totaled \$246.8 million in fiscal year 2005, as compared to \$133.2 million in fiscal year 2004. Capital additions primarily comprise replacement, renovation, and new construction of academic, research, and health care facilities, as well as significant investments in equipment. Capital asset additions are funded by capital appropriations, bond proceeds, gifts which were designated for capital purposes, and unrestricted net assets.

Construction in progress at June 30, 2005, totaled \$86.7 million that includes projects in numerous buildings across the campus. Significant projects include: medical laboratories; additional ophthalmologic facilities; and a health education facility.

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. The debt rating of the University is an important indicator of success in this area. The underlying bond ratings from Standard and Poor's and Moody's Investors Service for the Auxiliary and Campus Facilities Bonds are AAA/Aa2, the Hospital Revenue Bonds are AA/Aa2, and the Research Facilities



Revenue Bonds are AA-/Aa3, respectively. These ratings are considered high investment grade quality and positions the University, if deemed necessary, to obtain future debt financing at low interest rates and reduced issuance costs.

Bonds payable totaled \$238.1 million and \$243.6 million at June 30, 2005 and 2004, respectively. Two new Research Facilities Revenue Bond series were issued in fiscal year 2005, one of which was to partially advance refund two other Research Facilities Revenue Bond series. All other bonds were issued in prior years to finance new construction or renovation of the Huntsman Cancer Institute, medical research facilities, a new biology research building, the University Hospital expansion, and auxiliary enterprise facilities, including Rice-Eccles Stadium, student housing, and parking, as well as equipment for the University Hospital.

An institution's ratio of unrestricted operating revenues to bonds, notes and contract debt is a

valuable indicator of its ability to finance its outstanding debt. At June 30, 2005, the University has 4.0 times the unrestricted operating revenue necessary to meet its debt requirements.

NET ASSETS

Net assets represent the residual interest in the University's assets after liabilities are deducted.

Invested in capital assets, net of related debt represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted nonexpendable net assets are the University's permanent endowment funds.

Restricted expendable net assets are subject to externally imposed restrictions governing their use. This category of net assets includes \$86.9 million of quasi-endowments.

Although *unrestricted net assets* are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic and research programs and initiatives, as well as capital projects.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations. A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2005 and 2004 is shown in *Figure 3*.

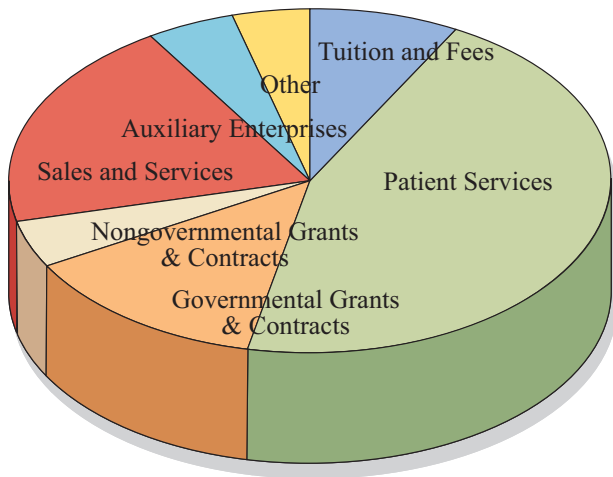
One of the University's greatest strengths is the diverse streams of revenues which supplement its student tuition and fees, including voluntary private support from individuals, foundations, and corporations, along with government and other grants and contracts, state appropriations, and investment income. The University has in the past and will continue to aggressively seek funding from all possible sources consistent with its mission, to supplement student tuition, and to manage prudently the financial resources realized from these efforts to fund its operating activities.

Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 34. The following are graphic illustrations of revenues by source (both

Figure 3.

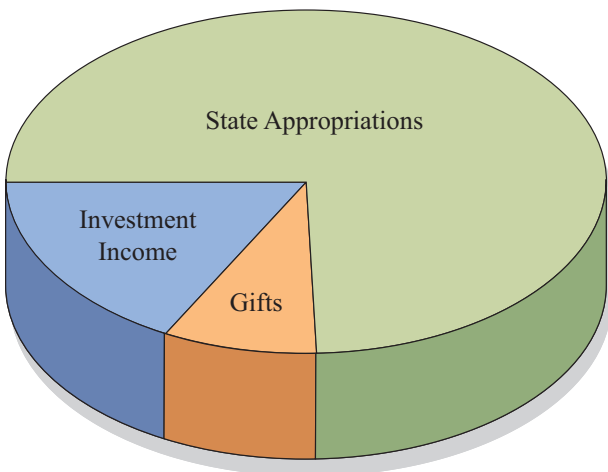
	2005	2004
	(in thousands)	
Operating revenues		
Tuition and fees	\$ 132,189	\$ 116,714
Patient services	746,425	669,851
Grants and contracts	294,588	278,750
Sales and services	324,503	293,054
Auxiliary enterprises	75,802	63,781
Other	66,838	47,433
Total operating revenues	<u>1,640,345</u>	<u>1,469,583</u>
Operating expenses	1,800,464	1,691,073
Operating loss	<u>(160,119)</u>	<u>(221,490)</u>
Nonoperating revenues (expenses)		
State appropriations	238,756	227,835
Gifts	26,787	22,123
Investment income	54,179	57,449
Interest expense	(16,172)	(16,503)
Other revenues (expenses)	(10,026)	2,102
Net nonoperating revenues	<u>293,524</u>	<u>293,006</u>
Capital appropriations	8,953	11,600
Capital and endowment grants and gifts	35,881	54,309
Total capital and endowment revenues	<u>44,834</u>	<u>65,909</u>
Increase in net assets	<u>178,239</u>	<u>137,425</u>
Net assets - beginning of year, restated	<u>1,684,466</u>	<u>1,547,041</u>
Net assets - end of year	<u>\$ 1,862,705</u>	<u>\$ 1,684,466</u>

OPERATING REVENUES



■ Tuition and Fees	\$132,189
■ Patient Services	\$746,425
■ Governmental Grants & Contracts	\$223,949
■ Nongovernmental Grants & Contracts	\$70,639
■ Sales and Services	\$324,503
■ Auxiliary Enterprises	\$75,802
■ Other	\$66,838

NONOPERATING REVENUES



■ State Appropriations	\$238,756
■ Gifts	\$26,787
■ Investment Income	\$54,179

operating and nonoperating), which were used to fund the University’s operations for the year ended June 30, 2005 (amounts are presented in thousands of dollars).

The University continues to face significant financial pressure, particularly in the areas of compensation and benefits, which represent 53.7% of total expenses, as well as in the areas of technology and investments. To manage this financial pressure, the University continues to seek diversified sources of revenue and to implement cost containment measures.

Tuition and state appropriations are the primary sources of funding for the University’s academic programs. Student tuition and fees, net of allowances for scholarships and fellowships, increased \$15.5 million, or 13.3% to \$132.2 million in fiscal year 2005. State appropriations increased 4.8% or \$10.9 million to \$238.8 million in fiscal year 2005.

While tuition and state appropriations fund a significant percentage of the University’s academic and administrative costs, private support has been, and will continue to be, essential to the University’s academic success. The economy of both the State of Utah and nation has experienced moderate growth, resulting in increased private support. Gift revenues for operations increased 21.1%, or \$4.7 million, to \$26.8 million in fiscal year 2005.

Revenues for grants and contracts increased 5.7%, or \$15.8 million, to \$294.6 million in fiscal year 2005, primarily related to research programs. The increase in grant and contract revenues was generated by a broad base of schools, colleges, and research units across the University. The University receives revenues for grants and contracts from government and private sources, which provide for the recovery of direct costs and facilities and administrative (indirect) costs.

Patient care revenues increased 11.4% or \$76.6 million to \$746.4 million in fiscal year 2005. The majority of these revenues relate to patient care services, which are generated within UUHC under contractual arrangements with governmental

payers and private insurers. Increased revenues primarily resulted from a growth in patient volume, demand for specialty services provided by outpatient clinics and moderate price increases for patient services.

Net investment income for the years ended June 30, 2005 and 2004, consisted of the following components:

	2005	2004
	(in thousands)	
Interest and dividends, net	\$25,750	\$19,455
Net increase in fair value of investments	28,429	37,994
Net investment income	<u>\$54,179</u>	<u>\$57,449</u>

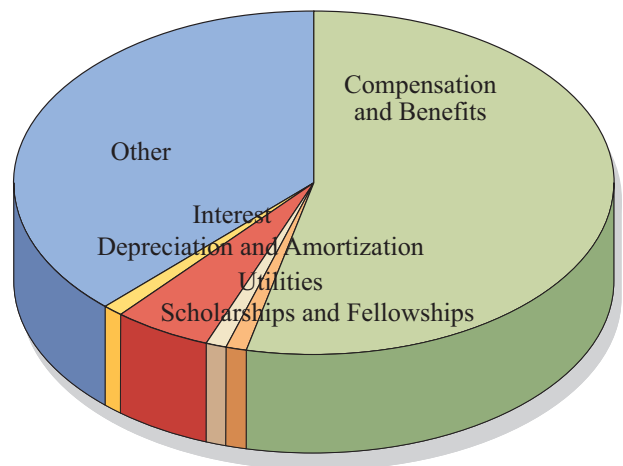
Net investment income totaled \$54.2 million in fiscal year 2005, as compared to \$57.4 million in fiscal year 2004, which is a slight decrease of \$3.2 million. Moreover, as discussed previously, the University's endowment investment policies are designed to maximize long-term total return while its income distribution policies are designed to preserve the value of the endowment portfolio and to generate a predictable stream of spendable income. The income distribution from the University's endowment portfolio for the support of operating activities, in accordance with the University's spending policy, totaled \$11.6 million in fiscal year 2005, as compared to \$10.4 million in fiscal year 2004. In addition, in fiscal year 2005, \$2.6 million was returned to endowment principal.

Capital appropriations received from the State in fiscal year 2005, which totaled \$9.0 million, funded a portion of building renovation projects. Other revenues include capital grants and gifts and additions to permanent endowments totaling \$35.9 million for the fiscal year ending June 30, 2005.

A comparative summary of the University's expenses for the years ended June 30, 2005 and 2004 follows:

	2005	2004
	(in thousands)	
Operating		
Compensation and benefits	\$ 980,676	\$ 906,868
Scholarships and fellowships	21,338	21,062
Utilities	22,583	20,309
Depreciation and amortization	96,142	95,952
Other	679,725	646,882
Total operating	<u>1,800,464</u>	<u>1,691,073</u>
Nonoperating		
Interest and other	26,198	16,503
Total expenses	<u>\$1,826,662</u>	<u>\$1,707,576</u>

The following is a graphic illustration of total expenses, in thousands of dollars, by natural classification:



Compensation and Benefits	\$980,676
Scholarships and Fellowships	\$21,338
Utilities	\$22,583
Depreciation and Amortization	\$96,142
Interest	\$16,172
Other	\$689,751

The University is committed to recruiting and retaining an outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. The resources expended for compensation and benefits increased 8.1%, or \$73.8 million, to \$980.7 million in fiscal year 2005. Of this increase, compensation increased 7.9%, or \$60.2 million, as a result of annual increases and the hiring of additional employees. The related employee benefits increased 9.6% or \$14.7 million in fiscal year 2005, due primarily to increased medical benefits paid by the University.

Other operating expenses increased 5.1%, or \$32.8 million, to \$679.7 million in fiscal year 2005.

In addition to their natural classification, it is also informative to review operating expenses by function. A comparative summary of the University's operating expenses by functional classification for the years ended June 30, 2005 and 2004 follows:

	2005	2004
	(in thousands)	
Instruction	\$ 232,232	\$ 216,498
Research	211,529	200,304
Public service	314,762	307,298
Academic support	66,488	61,481
Student services	16,890	16,205
Institutional support	50,656	49,725
Operations and maintenance of plant	43,027	41,332
Student aid	32,035	27,838
Other	314,734	328,810
Hospital	518,111	441,582
Total operating expenses	<u>\$1,800,464</u>	<u>\$1,691,073</u>

Instruction, research, and public service expenses increased 4.8%, or \$34.4 million, to \$758.5 million in fiscal year 2005. Academic and institutional support expenses increased 5.3%, or \$5.9 million, to \$117.1 million in fiscal year 2005.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the University's financial results, by reporting the major sources and uses of cash.

The University's cash and cash equivalents increased \$151.5 million due to the positive flow of funds provided by noncapital financing activities and investing activities in support of operating activities, offset by the use of funds for capital acquisitions. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 34, include state appropriations and private gifts used to fund operating activities.

CURRENT FACTORS HAVING PROBABLE FUTURE FINANCIAL SIGNIFICANCE

A primary factor contributing to the University's sound financial footing is the performance of its healthcare operations, UUHC and ARUP - with fiscal year 2005 distinguishing itself as the best year ever for both organizations. These operations will probably continue to comprise a growing proportion of total University revenues.

Academic colleges and related services operating on the main campus are, for the most part, financially healthy - but are reliant on state appropriations and federal research funds. The economy of the State of Utah continues to expand and this bodes well for higher education support. The Legislature, in its 2005 session, provided \$48 million in capital support to help fund the renovation of the University's Marriott Library. Management anticipates modest increases in general State support for compensation in the 3-5% range. It is also hoped that the State may address some long-standing needs for deferred maintenance and utility cost funding - at least on a one-time basis.

Federal research awards for 2005, while significant, reflect little growth over the prior



year. Competition for these funds is intense, and the federal government research budget has been stagnant in recent years. This not only has an effect on direct research revenues, but on the indirect cost recovery the University receives to reimburse overhead costs associated with research activities. On a related note, the University is submitting a new facilities and administration rate study - based on fiscal year 2005 data, to the federal government as part of the process to renegotiate the indirect cost reimbursement rate for research. This negotiation should be complete by early 2006, and we believe the current on-campus rate of 49.5% can be maintained or increased.

On the positive side, the University is gearing up for a major capital campaign, which is projected to add significantly to our endowment base. We are also looking forward to increased income from long-term investments as the economy continues to rebound and investment returns increase somewhat from the relatively modest gains of recent years. In summary, despite various challenges, the University remains on solid financial footing and maintains a strong set of financial performance indicators. These factors contribute to the high levels of confidence and support that the University enjoys from students, donors, legislators, taxpayers, sponsors, and creditors.



Financial Statements

THE UNIVERSITY OF UTAH | Statement of Net Assets

(in thousands of dollars)

As of June 30

	[For Comparison Only]	
	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2 & 4)	\$ 491,679	\$ 405,614
Short-term investments (Notes 2 & 4)	80,061	25,100
Receivables, net (Note 5)	213,948	188,073
Inventory (Note 1)	27,591	25,435
Other assets (Note 6)	8,902	8,389
Total current assets	822,181	652,611
Noncurrent Assets		
Restricted cash and cash equivalents (Notes 2 & 4)	114,359	48,895
Restricted short-term investments (Notes 2 & 4)	710	350
Investments (Notes 3 & 4)	175,966	251,471
Restricted investments (Notes 3 & 4)	182,098	231,300
Restricted receivables, net (Note 5)	57,628	56,669
Donated property held for sale	2,782	3,155
Other assets (Note 6)	16,199	17,145
Capital assets, net (Note 7)	1,094,780	1,025,401
Total noncurrent assets	1,644,522	1,634,386
Total assets	2,466,703	2,286,997
LIABILITIES		
Current Liabilities		
Accounts payable	61,820	79,456
Accrued payroll	56,077	52,460
Compensated absences & postemployment benefits (Note 1)	3,990	3,838
Deferred revenue (Note 9)	23,816	29,391
Deposits & other liabilities (Notes 11 & 15)	77,390	66,576
Bonds, notes and contracts payable (Notes 14, 15, & 16)	20,089	20,033
Total current liabilities	243,182	251,754
Noncurrent Liabilities		
Compensated absences & postemployment benefits (Note 1)	31,002	28,522
Deposits & other liabilities (Notes 11 & 15)	11,345	11,732
Bonds, notes and contracts payable (Notes 14, 15, & 16)	318,469	310,523
Total noncurrent liabilities	360,816	350,777
Total liabilities	603,998	602,531
NET ASSETS		
Invested in capital assets, net of related debt	760,338	706,000
Restricted for		
Nonexpendable		
Instruction	92,889	84,043
Research	30,057	26,389
Public service	39,771	34,843
Academic support	29,580	27,580
Scholarships	78,711	71,049
Other	4,033	3,941
Expendable		
Instruction	5,768	5,535
Research	123,239	114,808
Public service	25,971	15,568
Academic support	41,651	37,341
Institutional support	29,528	19,875
Scholarships	5,765	18,520
Loans	37,048	35,981
Debt service	14,474	14,897
Capital additions	49,228	54,708
Other	6,193	4,082
Unrestricted	488,461	409,306
Total net assets	\$1,862,705	\$1,684,466

THE UNIVERSITY OF UTAH | Statement of Revenues, Expenses, and Changes in Net Assets

(in thousands of dollars)

For the Years Ended June 30

		[For Comparison Only]
	2005	2004
OPERATING REVENUES AND EXPENSES		
Revenues		
Tuition and fees (Note 1)	\$ 132,189	\$ 116,714
Patient services (Notes 1 & 13)	746,425	669,851
Federal grants and contracts	207,079	202,035
State and local grants and contracts	16,870	12,831
Nongovernmental grants and contracts	70,639	63,884
Sales and services (Note 1)	324,503	293,054
Auxiliary enterprises (Note 1)	75,802	63,781
Other operating revenues	66,838	47,433
Total operating revenues	<u>1,640,345</u>	<u>1,469,583</u>
Expenses		
Compensation and benefits	980,676	906,868
Scholarships and fellowships	21,338	21,062
Utilities	22,583	20,309
Depreciation and amortization	96,142	95,952
Other operating expenses	679,725	646,882
Total operating expenses	<u>1,800,464</u>	<u>1,691,073</u>
Operating loss	<u>(160,119)</u>	<u>(221,490)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	238,756	227,835
Gifts	26,787	22,123
Investment income	54,179	57,449
Interest	(16,172)	(16,503)
Other nonoperating revenues (expenses)	(10,026)	2,102
Total nonoperating revenues	<u>293,524</u>	<u>293,006</u>
Gain before capital and permanent endowment additions	<u>133,405</u>	<u>71,516</u>
Capital appropriations	8,953	11,600
Capital grants and gifts	24,491	42,920
Additions to permanent endowments	11,390	11,389
Total capital and permanent endowment additions	<u>44,834</u>	<u>65,909</u>
Increase in net assets	<u>178,239</u>	<u>137,425</u>
NET ASSETS		
Net assets - beginning of year	1,684,466	1,547,041
Net assets - end of year	<u>\$1,862,705</u>	<u>\$1,684,466</u>

THE UNIVERSITY OF UTAH | Statement of Cash Flows

(in thousands of dollars)

For the Years Ended June 30

	2005	[For Comparison Only] 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees	\$132,850	\$124,440
Receipts from patient services	719,817	660,418
Receipts from contracts and grants	295,380	278,583
Receipts from auxiliary and educational services	401,263	358,094
Collection of loans to students	7,868	8,893
Payments to suppliers	(721,667)	(642,710)
Payments for personal services	(974,425)	(893,850)
Payments for scholarships/fellowships	(21,338)	(21,062)
Loans issued to students	(9,692)	(9,546)
Other	73,638	59,053
Net cash used by operating activities	<u>(96,306)</u>	<u>(77,687)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	238,756	227,835
Gifts		
Endowment	11,506	11,287
Nonendowment	29,401	19,636
Other	(9,870)	2,079
Net cash provided by noncapital financing activities	<u>269,793</u>	<u>260,837</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	26,888	9,724
Capital appropriations	8,952	11,600
Gifts	19,787	25,217
Purchase of capital assets	(131,079)	(88,378)
Principal paid on capital debt	(53,490)	(20,857)
Interest paid on capital debt	(16,165)	(16,486)
Net cash used by capital and related financing activities	<u>(145,107)</u>	<u>(79,180)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	180,594	265,065
Receipt of interest on investments	24,646	20,633
Purchase of investments	(82,091)	(215,799)
Net cash provided by investing activities	<u>123,149</u>	<u>69,899</u>
Net increase in cash	<u>151,529</u>	<u>173,869</u>
Cash - beginning of year	454,509	280,640
Cash - ending of year	<u>\$606,038</u>	<u>\$454,509</u>

THE UNIVERSITY OF UTAH | Statement of Cash Flows

(in thousands of dollars)

For the Years Ended June 30

	[For Comparison Only]	
	2005	2004
RECONCILIATION OF NET OPERATING LOSS TO CASH USED		
BY OPERATING ACTIVITIES		
Operating loss	\$ (160,119)	\$ (221,490)
Adjustments to reconcile operating loss to cash used		
by operating activities		
Depreciation expense	96,142	95,952
Change in assets and liabilities		
Receivables, net	(24,072)	(7,168)
Inventory	(2,156)	(1,994)
Other assets	434	6,439
Accounts payable	(17,636)	20,039
Accrued payroll	3,618	10,896
Compensated absences & postemployment benefits	2,632	2,122
Deferred revenue	(5,575)	10,285
Deposits & other liabilities	10,426	7,232
Net cash used by operating activities	\$ (96,306)	\$ (77,687)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital leases	\$ 30,370	\$ 8,479
Donated property and equipment	8,582	5,025
Annuity and life income	163	(6)
Increase in fair value of investments	28,429	37,994
Total noncash investing, capital, and financing activities	\$ 67,544	\$ 51,492

Notes to Financial Statements



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements report the financial activity of the University of Utah (University), including the University of Utah Hospitals and Clinics (UUHC). The University is a component unit of the State of Utah. In addition, University administrators hold a majority of seats on the boards of trustees of two other related entities representing component units of the University.

Component units are entities that are legally separate from the University, but are financially accountable to the University, or whose relationships with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete. The relationship of the University with its component units requires the financial activity of the component units to be blended with that of the University. Copies of the financial report of each component unit can be obtained from the University. The component units of the University are the University of Utah Research Foundation (UURF) and Associated Regional and University Pathologists, Inc. (ARUP).

- UURF is a not-for-profit corporation governed by a board of directors who are affiliated with the University with the exception of one. The operations of UURF include the leasing and the administration of Research Park (a research park located on land owned by the University), the leasing of certain buildings, and the commercial development of patents and products developed by University personnel. The fiscal year end for UURF is June 30. Other independent auditors audited UURF and their report, dated September 6, 2005, has been issued under separate cover.

- ARUP is a for-profit corporation that provides clinical laboratory services to medical centers, hospitals, clinics and other clinical laboratories throughout the United States, including UUHC. ARUP contracts with the Department of Pathology of the

University of Utah School of Medicine to provide pathology consulting services. The fiscal year end for ARUP is June 30. Other independent auditors audited ARUP and their report, dated August 23, 2005, has been issued under separate cover.

All Governmental Accounting Standards Board (GASB) pronouncements and all applicable Financial Accounting Standards Board (FASB) pronouncements are applied by the University, UURF and ARUP in the accounting and reporting of their operations. However, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University has elected not to apply FASB pronouncements issued after November 30, 1989.

B. Basis of Accounting

All statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Operating activities include all revenues and expenses, derived on an exchange basis, used to support the instructional, research and public service efforts, and other University priorities. Significant recurring sources of the University's revenues are considered nonoperating as defined by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and required by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. When both restricted and unrestricted resources are available, such resources are spent and tracked at the discretion of the department within the guidelines of donor restrictions.

Investments are recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment

revenue. The University distributes earnings from pooled investments based on the average daily investment of each participating account or for endowments, distributed according to the University's spending policy.

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

Patient revenue of UUHC and the School of Medicine medical practice plan are reported net of third-party adjustments.

In accordance with GASB Statement No. 34, certain expenses are netted against revenues as allowances. The following schedule presents revenue allowances for the years ended June 30, 2005 and 2004:

Revenue	2005	2004
Tuition and fees	\$13,025,482	\$11,619,653
Patient services	34,695,589	35,682,964
Sales and services	14,667	8,650
Auxiliary enterprises	911,203	812,115

C. Inventories

Bookstore inventories are valued using the retail inventory method. All other inventories are stated at the lower of cost or market using the first-in, first-out method or on a basis which approximates cost determined on the first-in, first-out method.

D. Research and Development Costs

Research and development costs of ARUP are expensed as incurred. These costs for the year ended June 30, 2005, were approximately \$5,889,000.

E. Compensated Absences & Postemployment Benefits

Employees' vacation leave is accrued at a rate of eight hours each month for the first five years

and increases to a rate of 16.67 hours each month after fifteen years of service. There is no requirement to use vacation leave, but a maximum of thirty days plus one-year accrual may be carried forward at the beginning of each calendar year. Employees are reimbursed for unused vacation leave upon termination and vacation leave is expended when used or reimbursed. The liability for vacation leave at June 30, 2005, was approximately \$31,717,000.

Employees earn sick leave at a rate of eight hours each month, with an accumulation limit of 1,040 hours. The University does not reimburse employees for unused sick leave. Each year, eligible employees may convert up to four days of unused sick leave to vacation leave based on their use of sick leave during the year. Sick leave is expended when used.

In addition, the University provides postemployment benefits, as approved by the Board of Trustees, for those employees who have attained the age of 60 with at least fifteen years of service and elect the University's early retirement option. Currently, 101 eligible employees have elected to take the early retirement option. The University pays each early retiree an annual amount equal to the lesser of 20% of the retiree's final salary or their estimated social security benefit, as well as health care and life insurance premiums until the employee reaches the age of 65. The funding for these postemployment benefits is provided on a pay-as-you-go basis. For the year ended June 30, 2005, these expenditures were approximately \$1,556,000.

F. Construction

The Utah State Division of Facilities Construction and Management (DFCM) administers most of the construction of facilities for state institutions, maintains records, and furnishes cost information for recording plant assets on the books of the University. Interest expense incurred for construction of capital facilities is considered immaterial and is not capitalized. Construction projects administered by DFCM that were

started prior to fiscal year 2002 and are not completed are recorded as Construction in Progress. Construction projects beginning in fiscal year 2002 and after will not be recorded on the books of the University until the facility is available for occupancy.

G. Disclosures

Certain financial information for fiscal year ended June 30, 2004 is included for comparison only and is not complete. Complete information is available in the separately issued financial statements for that year. Certain adjustments have been made to the June 30, 2004 column of these statements to conform with the current year presentation.

2. CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS

Cash and cash equivalents consists of cash and short-term investments with an original maturity of three months or less. Cash, depending on source of receipts, is pooled, except for cash and cash equivalents held by ARUP and when legal requirements dictate the use of separate accounts. The cash balances and cash float from outstanding checks are invested principally in short-term investments that conform to the provisions of the *Utah Code*. It is the practice of the University that the investments ordinarily be held to maturity at which time the par value of the investments will be realized.

The Utah State Treasurer’s Office operates the Utah Public Treasurer’s Investment Fund (PTIF) which is invested in accordance with the State Money Management Act. The State Money Management Council provides regulatory oversight for the PTIF. The PTIF is available for investment of funds administered by any Utah public treasurer.

At June 30, 2005, cash and cash equivalents and short-term investments consisted of:

<u>Cash and Cash Equivalents</u>	
Cash	\$(14,092,777)
Money market funds	25,699,680
Time certificates of deposit	112,503,256
Obligations of the U.S.	
Government and its agencies	44,660
Utah Public Treasurer’s	
Investment Fund	481,883,748
Total (fair value)	<u>\$606,038,567</u>

<u>Short-term Investments</u>	
Obligations of the U.S.	
Government and its agencies	\$80,770,889
Total (fair value)	<u>\$80,770,889</u>

3. INVESTMENTS

Funds available for investment are pooled to maximize return and minimize administrative cost, except for funds that are authorized by the University administration to be separately invested or which are separately invested to meet legal or donor requirements. Investments received as gifts are recorded at market or appraised value on the date of receipt. If no market or appraised value is available, investments received as gifts are recorded at a nominal value. Other investments are also recorded at fair value.

UURF receives, in exchange for patent rights, common stock of newly organized companies acquiring these patents. Inasmuch as the stock is ordinarily not actively traded, the fair value is ordinarily not ascertainable and any realization from the sale of the stock is often uncertain. Therefore, such stock is recorded by UURF at a nominal value. Those stocks that are publicly traded are recorded at their fair value on June 30, 2005.

University personnel manage certain portfolios, while other portfolios are managed by banks, investment advisors or through trust agreements.

According to the Uniform Management of Institutional Funds Act, Section 13-29 of the

Utah Code, 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.

The endowment income spending policy at June 30, 2005, is 4% of the twelve quarter moving average of the market value of the endowment pool. The spending policy is reviewed periodically and any necessary changes are made.

The amount of net appreciation on investments of donor-restricted endowments that were available for authorization for expenditure at June 30, 2005, was approximately \$62,575,000. The net appreciation is a component of restricted expendable net assets.

At June 30, 2005, the investment portfolio composition was as follows:

Obligations of the U.S.	
Government and its agencies	\$108,059,776
Mutual funds	235,707,068
Common and preferred stocks	<u>14,297,338</u>
Total (fair value)	<u>\$358,064,182</u>

4. DEPOSITS AND INVESTMENTS

The Utah State Money Management Act defines the types of securities authorized as appropriate investments for the University 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.

Statutes authorize the University to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which

must be Moody’s Investors Service or Standard & Poor’s; bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and PTIF.

Through April, 2005, statutes also authorized the University to invest funds acquired by gift, private grant, and the corpus of funds functioning as endowments according to the rules of the State Money Management Council. Rule 2 allows the University to invest these funds in any of the above investments or any of the following subject to satisfying certain criteria: professionally managed pooled or commingled investment funds, or mutual funds which satisfy certain criteria; common stock, convertible preferred stock or convertible bonds; corporate bonds or debentures; and alternative investments as defined in the rule. As of May 2005, state law allows endowment funds of higher education institutions to be invested in accordance with Utah State Board of Regents (Board of Regents) default investment guidelines or in accordance with policies adopted by the Institution’s Board of Trustees and approved by the Board of Regents. For the period ending June 30, 2005, the Board of Regents required all institutions to invest endowment funds in accordance with Rule 2 of the Utah State Money Management Act.

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

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

The University's participation in mutual funds may indirectly expose it to risks associated with using, holding, or writing derivatives. However, specific information about any such transactions is not available to the University.

A. Deposits

At June 30, 2005, the carrying amounts of the University's deposits and bank balances were \$25,406,883 and \$126,277,920, respectively. The bank balances of the University were insured for \$200,000, by the Federal Deposit Insurance Corporation. The bank balances in excess of \$200,000 were uninsured and uncollateralized, leaving \$126,077,920 exposed to custodial credit risk. All deposits were held by a qualified depository as defined by the State Money Management Act. The State of Utah does not require collateral on deposits.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the University's deposits may not be returned to the

University. The University does not have a formal deposit policy for custodial credit risk.

B. Investments

As of June 30, 2005, the University had investments and maturities as shown in *Figure 1*.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State Money Management Act. 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. Except for University funds acquired by gifts, grants, or the corpus of funds functioning as endowments, 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 University funds acquired by gifts, grants, or the corpus of funds functioning as endowments, Rule 2 of the State Money

Figure 1.

Investment Type	Fair Value	Investment Maturities (in years)		
		Less than 1	1 - 5	6 - 10
Money market funds	\$ 21,694,389	\$ 21,694,389		
Utah Public Treasurer's Investment Fund	481,883,748	481,883,748		
U.S. Treasuries	99,784,325	31,476,469	\$ 68,013,052	\$294,804
U.S. Agencies	89,091,000	44,774,500	44,316,500	
Mutual bond funds	4,826,559		4,778,307	48,252
Totals	<u>697,280,021</u>	<u>\$579,829,106</u>	<u>\$117,107,859</u>	<u>\$343,056</u>
Common and preferred stocks	14,297,338			
Equity funds	184,204,317			
Hedge fund	42,924,304			
Venture capital funds	3,751,888			
Totals	<u>\$942,457,868</u>			

Figure 2.

Investment Type	Fair Value	Quality Rating		
		AAA	Unrated	No Risk
Money market funds	\$ 21,694,389	\$ 15,699,352	\$ 5,995,037	
Utah Public Treasurer's Investment Fund	481,883,748		481,883,748	
U.S. Treasuries	99,784,325			\$ 99,784,325
U.S. Agencies	89,091,000	89,091,000		
Mutual bond funds	4,826,559		4,826,559	
Totals	<u>\$697,280,021</u>	<u>\$104,790,352</u>	<u>\$492,705,344</u>	<u>\$ 99,784,325</u>

Management Council does not allow the dollar-weighted average maturity of fixed-income securities to exceed ten years.

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

At June 30, 2005, the University had debt securities and quality ratings as shown in *Figure 2*.

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. The University does not have a formal investment policy for custodial credit risk. At June 30, 2005, the U.S. Treasuries and Agencies debt securities investments were held in a University account at the University's custodial bank, Wells Fargo Bank.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with the Rules of the State Money Management Council. For University funds acquired by gifts, grants, or the corpus of funds functioning as endowments, Rule 2 of the State Money Management Council limits investments in equity securities and fixed income securities to no more than 5% of all funds in any one issuer and no more than 25% of

all funds in any one industry. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the State Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio. At June 30, 2005, there were no single issuer investments that exceeded 5%.

5. RECEIVABLES

Accounts, pledges, and interest receivable include hospital patient accounts, medical services plan accounts, trade accounts, pledges, interest income on investments, and other receivables. Loans receivable predominantly consist of student loans.

Allowances for doubtful accounts are established by charges to operations to cover anticipated losses from accounts receivable generated by sales and services and student loans. Such accounts are charged to the allowance when collection appears doubtful and the accounts are referred to collection agencies. Any subsequent recoveries are credited to the allowance accounts. Allowances are not established for pledges or in those instances where receivables consist of amounts due from governmental units or where receivables are not material in amount.

The following schedule presents receivables at June 30, 2005, including approximately \$27,902,000 and \$29,726,000 of noncurrent loans and pledges receivable, respectively:

Accounts	\$221,126,064
Contracts and grants	26,736,775
Loans	33,683,465
Pledges	32,739,317
Interest	1,529,297
	<u>315,814,918</u>
Less allowances for bad debt	(44,238,177)
Receivables, net	<u>\$271,576,741</u>

6. DEFERRED CHARGES AND OTHER ASSETS

The costs associated with issuing long-term bonds payable are deferred and amortized over the life of the related bonds using the straight-line method, which approximates the effective interest method. In addition, goodwill associated with the purchase of certain health clinics is amortized using the straight-line method.

7. CAPITAL ASSETS

Buildings; infrastructure and improvements, which includes roads, curbs and gutters, streets and sidewalks, and lighting systems; land; equipment; and library materials are valued at cost at the date of acquisition or at fair market value at the date of donation in the case of gifts. Buildings, infrastructure and improvements, and additions to existing assets are capitalized when acquisition cost equals or exceeds \$50,000. Equipment is capitalized when acquisition costs exceed \$5,000 for the University or \$500 for UUHC. All costs incurred in the acquisition of library materials are capitalized. The University acquires some of its equipment from inventories of government excess property for which the University pays a minimal processing charge. Such property is valued at the original cost paid by the governmental entity. All campus land acquired



through grants from the U.S. Government has been valued at \$3,000 per acre. Other land acquisitions have been valued at original cost or fair market value at the date of donation in the case of gifts. Buildings, improvements, land, and equipment of component units have been valued at cost at the date of acquisition.

Capital assets of the University and its component units are depreciated on a straight-line basis over their estimated useful lives. The estimated useful lives of University assets extends to forty years on buildings, fifteen years on infrastructure and improvements, twenty years on library books, and from five to fifteen years on equipment. The estimated useful lives of component unit assets extends to fifty years on buildings and improvements and from three to eight years on equipment. Land, art and special collections, and construction in progress are not depreciated.

At June 30, 2005, the University had outstanding commitments for the construction and remodeling of University buildings of approximately \$26,901,000.

Capital assets at June 30, 2005, are shown in Figure 3.

8. PENSION PLANS AND RETIREMENT BENEFITS

As required by state law, eligible nonexempt employees (as defined by the U.S. Fair Labor Standards Act) of the University are covered by either the Utah State and School Contributory or Noncontributory or the Public Safety Noncontributory Retirement Systems and eligible exempt employees (as defined by the U.S. Fair Labor Standards Act) are covered by the Teachers Insurance and Annuity Association—College Retirement Equities Fund (TIAA-CREF). Eligible employees of ARUP are covered by a separate defined contribution pension plan and a profit sharing plan.

The University contributes to the Utah State and School Contributory and Noncontributory and the Public Safety Noncontributory Retirement System (Systems) that are multi-employer, cost sharing, defined benefit pension plans. 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

Figure 3.	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	\$1,054,869,831	\$ 66,794,050		\$1,121,663,881
Infrastructure and improvements	119,740,959	12,024,185		131,765,144
Land	17,267,453		\$ 318	17,267,135
Equipment	436,938,746	73,622,746	25,044,359	485,517,133
Library materials	139,435,441	4,614,211		144,049,652
Art and special collections	31,929,064	4,347,406	256,903	36,019,567
Construction in progress	75,738,768	85,413,768	74,493,092	86,659,444
Total cost	<u>1,875,920,262</u>	<u>246,816,366</u>	<u>99,794,672</u>	<u>2,022,941,956</u>
Less accumulated depreciation				
Buildings	401,302,415	41,853,448		443,155,863
Infrastructure & improvements	63,552,738	6,490,571	157	70,043,152
Equipment	309,839,591	42,343,785	17,696,791	334,486,585
Library materials	75,823,962	4,652,655		80,476,617
Total accumulated depreciation	<u>850,518,706</u>	<u>95,340,459</u>	<u>17,696,948</u>	<u>928,162,217</u>
Capital assets, net	<u>\$1,025,401,556</u>	<u>\$151,475,907</u>	<u>\$ 82,097,724</u>	<u>\$1,094,779,739</u>

Utah Code Annotated, 1953, as amended. The Utah State Retirement Office Act 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 Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems.

Plan members in the State and School Contributory Retirement System are required to contribute 6.00% of their annual covered salaries, all of which is paid by the University, and the University is required to contribute 8.89% of their annual salaries. In the State and School Noncontributory Retirement System and the Public Safety Noncontributory Retirement System, the University is required to contribute 14.88% (including 1.50% to a 401(k) salary deferral program) and 23.46%, respectively, of plan members' annual salaries. The contribution requirements of the Systems are authorized by statute and specified by the Board and the contribution rates are actuarially determined.

TIAA-CREF provides individual retirement fund contracts 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 University 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 year ended June 30, 2005, the University's contribution to this defined contribution pension plan was 14.20% of the employees' annual salaries. The University has no further liability once contributions are made. Certain health clinic employees hired prior to January 1, 2001, were fully vested as of that date. Employees hired subsequent to January 1, 2001, are eligible to participate in the plan one year after hire date and vest after six years. The University's contribution for these health clinic employees was 3.00% of the employees' annual salaries.

The ARUP defined contribution pension and profit sharing plans provide retirement benefits for all employees who have attained certain tenure-based and hours-worked thresholds. Employees are fully vested in both plans after five years of service. For the year ended June 30, 2005, ARUP contributed 5.00% of the employees' annual salaries (less forfeitures) to the pension plan. Contributions to the profit sharing plan are at the discretion of ARUP.

For the years ended June 30, 2005, 2004, and 2003, the University's contributions to the Systems were equal to the required amounts, as shown in *Figure 4*.

9. DEFERRED REVENUE

Deferred revenue consists of summer school tuition and student fees, advance payments on grants and contracts, and results of normal operations of auxiliary enterprises and service units.

Figure 4.

	2005	2004	2003
State and School Contributory Retirement System	\$ 1,563,900	\$ 1,419,412	\$ 1,273,895
State and School Noncontributory Retirement System	22,375,155	20,178,128	18,098,640
Public Safety Noncontributory Retirement System	295,083	279,877	260,676
TIAA-CREF	60,472,570	56,352,292	52,458,884
Pension plan	2,743,021	2,646,171	2,303,659
Profit sharing plan	3,353,435	3,173,865	2,256,037
Total contributions	<u>\$90,803,164</u>	<u>\$84,049,745</u>	<u>\$76,651,791</u>

10. FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others are neither in the possession of nor under the management of the University. These funds, which are not recorded on the University's financial records and which arose from contributions, are held and administered by external fiscal agents, selected by the donors, who distribute net income earned by such funds to the University, where it is recorded when received. The fair value of funds held in trust at June 30, 2005, was \$70,327,429.

In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of \$8,087,662 as of June 30, 2005, based on a predetermined formula. The fair value of this stock as of June 30, 2005 cannot be determined because the stock is not actively traded.

11. RISK MANAGEMENT

The University maintains insurance coverage for commercial general liability, automobile, errors and omissions, and property (building and equipment) through policies administered by the Utah State Risk Management Fund. Employees of the University and authorized volunteers are covered by workers' compensation and employees' liability through the Workers' Compensation Fund of Utah.

In addition, the University maintains self-insurance funds for health care, dental, and auto/physical damage, as well as hospital and physicians malpractice liability self-insurance funds. The malpractice liability self-insurance

funds are held in trust with an independent financial institution in compliance with Medicare reimbursement regulations. Based on an analysis prepared by an independent actuary, the administration believes that the balance in the trust funds as of June 30, 2005, is adequate to cover any claims incurred through that date. The University and UUHC have a "claims made" umbrella malpractice insurance policy in an amount considered adequate by its respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances.

The estimated self-insurance claims liability is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the University's estimated self-insurance claims liability for the years ended June 30 are shown in *Figure 5*.

The University has recorded the investments of the malpractice liability trust funds at June 30, 2005, and the estimated liability for self-insurance claims at that date in the Statement of Net Assets. The income on fund investments, the expenses related to the administration of the self-insurance and malpractice liability trust funds, and the estimated provision for the claims liability for the year then ended are recorded in the Statement of Revenues, Expenses, and Changes in Net Assets.

Figure 5.

	2005	2004
Estimated claims liability - beginning of year	\$ 44,198,248	\$ 34,223,158
Current year claims and changes in estimates	124,615,602	109,807,760
Claim payments, including related legal and administrative expenses	(115,944,826)	(99,832,670)
Estimated claims liability - end of year	<u>\$ 52,869,024</u>	<u>\$ 44,198,248</u>

12. INCOME TAXES

The University, as a political subdivision of the state of Utah, has a dual status for federal income tax purposes. The University is both an Internal Revenue Code (IRC) Section 115 organization and an IRC Section 501(c)(3) charitable organization. This status exempts the University from paying federal income tax on revenue generated by activities which are directly related to the University's mission. This exemption does not apply to unrelated business activities. On these activities, the University is required to report and pay federal and state income tax.

UURF is not subject to income taxes under Section 501(c)(3) of the Internal Revenue Code.

ARUP is also not subject to income taxes based on a private letter ruling from the Internal Revenue Service stating that certain income providing an essential governmental function is exempt from federal income taxes under Internal Revenue Code Section 115.

13. HOSPITAL REVENUE

A. Net Patient Service Revenue

UUHC reports net patient service revenue at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Charity care is excluded from net patient service revenue.

UUHC has third-party payor agreements with Medicare and Medicaid that provide for payments to UUHC at amounts different from established rates. Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that

is based on clinical, diagnostic, and other factors. Outpatient services rendered to Medicaid program beneficiaries and certain outpatient services and defined capital costs related to Medicare beneficiaries are paid based on a cost reimbursement basis. Medicare reimbursements are based on a tentative rate with final settlement determined after submission of annual cost reports by UUHC and audits thereof by the Medicare fiscal intermediary.

The estimated final settlements for open years are based on preliminary cost findings after giving consideration to interim payments that have been received on behalf of patients covered under these programs.

B. Charity Care

UUHC maintains records to identify and monitor the level of charity care it provides. Based on established rates, the charges foregone as a result of charity during the year ended June 30, 2005, were approximately \$25,711,000.

14. LEASES

A. Revenue

UURF receives lease revenues from noncancellable sublease agreements with tenants of the Research Park and from tenants occupying six buildings owned by UURF. The lease revenue to be received from these noncancellable leases for each of the subsequent five years is \$6,500,000, and for twenty years thereafter, comparable annual amounts. Most lease revenue is subject to escalation based on changes in the Consumer Price Index (CPI). Since such escalations are dependent upon future changes in the CPI, these escalations, if any, are not reflected in the minimum noncancellable lease revenues listed above.

B. Commitments

The University leases buildings and office and computer equipment. Capital leases are valued at the present value of future minimum lease

payments. Assets associated with the capital leases are recorded as buildings and equipment together with the related long-term obligations. Assets currently financed as capital leases amount to \$16,875,000 and \$122,891,278 for buildings and equipment, respectively. Accumulated depreciation for these buildings and equipment amounts to \$1,603,125 and \$68,044,153, respectively. Capital leases of ARUP are guaranteed by the University. Operating leases and related assets are not recorded in the Statement of Net Assets. Payments are recorded as expenses when incurred and amount to approximately \$11,391,000 for the University and \$4,732,000 for component units for the year ended June 30, 2005. Total operating lease commitments for the University include approximately \$14,873,000 of commitments to component units.

Included in the above component unit lease expenses are leases by ARUP for its principal laboratory and office buildings, under long-term agreements, from a partnership in which one of its directors is a principal. The agreements have initial terms of fifteen years with two five-year renewal options and include rent increases of two percent annually in the sixth and eleventh years from the commencement of the lease. Total lease payments for the year ended June 30, 2005 were \$4,732,419.

The University entered into a Huntsman Cancer Institute capital sublease agreement in the

amount of \$16,875,000 dated November 1996 with the State of Utah, acting through DFCM for the lease of the Huntsman Cancer Institute building, located east of the University campus and adjacent to the University Hospital. The Huntsman sublease is an annually renewable lease with a final expiration date of May 2013. Annual payments began May 1997 and range from a low of approximately \$468,478 to a high of approximately \$1,648,090. At the end of the lease, title to the Huntsman Cancer Institute building will be transferred to the University.

Future minimum lease commitments for operating and capital leases as of June 30, 2005 are shown in *Figure 6*.

15. BONDS PAYABLE AND OTHER LONG-TERM LIABILITIES

The long-term debt of the University consists of bonds payable, capital lease obligations, compensated absences, and other minor obligations.

The State Board of Regents of the State of Utah issues revenue bonds to provide funds for the construction and renovation of major capital facilities and the acquisition of capital equipment for the University. In addition, revenue bonds have been issued to refund other revenue bonds and capitalized leases.

Figure 6.

Fiscal Year	Operating	Capital
2006	\$ 27,933,433	\$ 14,898,783
2007	25,733,076	13,048,383
2008	24,052,527	11,794,674
2009	22,161,896	24,185,641
2010	17,690,623	6,689,373
2011 – 2015	80,085,110	31,210,856
2016 – 2020	54,377,518	
2021 – 2025	49,592,497	
Total future minimum lease payments	<u>\$301,626,680</u>	<u>101,827,710</u>
Amount representing interest		(16,535,805)
Present value of future minimum lease payments		<u>\$ 85,291,905</u>

The revenue bonds are special limited obligations of the University. The obligation for repayment is solely that of the University and payable from the net revenues of auxiliary enterprises and UUHC, student building fees, land grant income, and recovered indirect costs. Neither the full faith and credit nor the taxing power of the State of Utah or any other political subdivision of the State is pledged to the payment of the bonds, the distributions or other costs appertaining thereto.

In 1985, the State Board of Regents authorized the University to issue Variable Rate Demand Industrial Development Bonds (University Inn Project - 1985 Series) for the Salt Lake City Marriott - University Park Hotel, separate from the University. The bonds are payable from the revenues of the hotel and the University has no responsibility or commitment for repayment of the bonds. The outstanding balance of the bonds at June 30, 2005, is \$6,785,000.

The Series 1997A Auxiliary and Campus Facilities Revenue Bonds currently bear interest

at a weekly rate in accordance with the bond provisions. When a weekly rate is in effect, the Series 1997A Bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's tender agent. The University's remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. If any Series 1997A Bonds cannot be remarketed to new holders, the tender agent is required to draw on an irrevocable standby bond purchase agreement to pay the purchase price of the bonds delivered to it. The standby bond purchase agreement is with J.P. Morgan Chase Bank and is valid through July 30, 2010. The University pays a quarterly fee for the services provided by J.P. Morgan Chase Bank. No funds have been drawn against the standby bond purchase agreement. The interest requirement for the Series 1997A Bonds is calculated using an interest rate of 2.40%, which is the rate in effect at June 30, 2005.



The following schedule lists the outstanding bonds payable of the University at June 30, 2005:

Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2005
Auxiliary and Campus Facilities	3/1/87	2014	3.750% - 6.750%	\$ 11,140,000	\$ 200,000	\$ 1,690,000
Research Facilities Revenue	4/1/96	2011	4.200% - 6.500%	21,050,000	(324,181)	(324,181)
Auxiliary and Campus Facilities	7/30/97	2027	Variable	52,590,000	1,000,000	14,000,000
Hospital Revenue Refunding	12/1/97	2006	4.750% - 5.500%	24,615,000	3,314,699	6,729,524
Hospital Revenue	6/1/98	2013	5.250% - 5.375%	25,020,000	57,089	25,579,642
Auxiliary and Campus Facilities Revenue and Refunding	7/1/98	2016	4.100% - 5.250%	120,240,000	2,019,708	117,189,551
Auxiliary and Campus Facilities	5/1/99	2014	4.000% - 4.800%	5,975,000	392,602	4,204,714
Research Facilities Revenue	7/13/00	2020	5.000% - 5.750%	17,585,000	640,819	3,554,284
Auxiliary and Campus Facilities	7/18/01	2021	3.500%- 5.125%	2,755,000	108,879	2,428,636
Hospital Revenue	8/7/01	2022	5.000%- 5.500%	26,670,000	14,411	27,022,716
Research Facilities Revenue	6/30/04	2019	3.000%- 4.700%	9,685,000	501,998	9,137,170
Research Facilities Revenue	2/15/05	2025	3.000%- 5.000%	5,515,000	169,322	5,644,409
Research Facilities Revenue	6/07/05	2020	3.000%- 5.000%	20,130,000	188,040	21,243,797
Total					\$8,283,386	\$238,100,262

UURF has purchased three buildings with two mortgages that are guaranteed by the University. The remaining amounts of the mortgages are \$6,481,819 at 8.87% interest and \$3,175,516 at 7.15% interest. The mortgages will be paid off on April 1, 2020 and September 1, 2021, respectively.

The following schedule summarizes the changes in long-term liabilities for the year ended June 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	\$ 243,641,739	\$ 26,888,206	\$ 32,429,683	\$ 238,100,262	\$ 8,283,386
Capital leases payable	75,258,168	30,369,714	20,335,977	85,291,905	10,941,387
Notes & contracts payable	11,655,893	4,318,390	808,297	15,165,986	864,288
Total long-term debt	<u>330,555,800</u>	<u>61,576,310</u>	<u>53,573,957</u>	<u>338,558,153</u>	<u>20,089,061</u>
Compensated absences	32,359,432	23,152,751	20,520,374	34,991,809	3,989,969
Deposits & other liabilities	<u>78,308,637</u>	<u>76,831,835</u>	<u>66,405,780</u>	<u>88,734,692</u>	<u>77,390,134</u>
Total long-term liabilities	<u>\$441,223,869</u>	<u>\$161,560,896</u>	<u>\$140,500,111</u>	<u>\$462,284,654</u>	<u>\$101,469,164</u>

Maturities of principal and interest requirements for bonds, notes and contracts payable are as follows:

Fiscal Year	Payments	
	Principal	Interest
2006	\$ 20,089,061	\$ 16,256,317
2007	21,001,697	15,459,329
2008	20,270,947	14,569,041
2009	34,207,268	13,395,783
2010	18,265,341	12,051,094
2011 – 2015	94,910,660	43,328,981
2016 – 2020	58,221,007	26,641,274
2021 – 2025	41,001,190	13,536,603
2026 – 2030	30,590,982	4,286,150
Total	<u>\$ 338,558,153</u>	<u>\$ 159,524,572</u>

16. RETIREMENT OF DEBT

In prior years, the University defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds.

In addition, the University issued on June 7, 2005, Research Facilities Revenue Refunding Bonds Series 2005B in the amount of \$20,130,000 to partially advance refund \$8,920,000 and \$10,900,000 of Series 1996 and 2000 Research Facilities Revenue Bonds. This refunding resulted in a reduction of the University's aggregate debt service payments of approximately \$1,036,000 over the next fifteen years and a present value economic gain of approximately \$891,000. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. The total principal amount of defeased bonds held in irrevocable trusts at June 30, 2005, is \$23,670,000.

17. FUNCTIONAL CLASSIFICATION OF EXPENSES

The following schedule presents operating expenses by functional classification for the year ended June 30, 2005:

Function	Amount (in thousands)
Instruction	\$ 232,232
Research	211,529
Public service	314,762
Academic support	66,488
Student services	16,890
Institutional support	50,656
Operation & maintenance of plant	43,027
Student aid	32,035
Other	314,734
Hospital	518,111
Total	<u>\$ 1,800,464</u>

18. SEGMENT INFORMATION

The University issues revenue bonds to provide funds for the construction and renovation of major capital facilities and the acquisition of capital equipment for the University. Investors in these bonds rely solely on the revenue generated by specific activities, identified as segments, for repayment. The net revenue of the following segments has been pledged for the retirement of outstanding bonds payable.

Auxiliary Enterprises - is comprised of specific auxiliary enterprises, namely: University Bookstore, Residential Living, University Student Apartments, Commuter Services, Jon M. Huntsman Center, Rice-Eccles Stadium, and Union Building. These auxiliaries provide on-campus services for the benefit of students, faculty and staff. In addition to the net revenues of these auxiliaries, student building fees, state land grant income and a subsidy from the federal department of Housing and Urban Development are pledged to the retirement of all Auxiliary Campus and Facility bonds.

University of Utah Hospitals & Clinics (UUHC) - is comprised of the University Hospitals, the University Neuropsychiatric Institute, and other clinics that provide health and psychiatric services to the community.

Reimbursed Overhead - is the revenue generated by charging approved facilities and administration rates to grants and contracts.

The following schedules present condensed financial information for each of the University's segments.

STATEMENT OF NET ASSETS

	Auxiliary Enterprises	UUHC	Reimbursed Overhead
Assets			
Current assets			
Cash and cash equivalents	\$(1,958,131)	\$ 29,263,520	\$ 36,279,862
Short-term investments		4,841,311	
Accounts receivable, net	2,109,400	115,366,675	4,788,905
Inventory	3,827,174	15,078,554	
Other assets	3,699	7,262,067	
Total current assets	<u>3,982,142</u>	<u>171,812,127</u>	<u>41,068,767</u>
Noncurrent assets			
Investments		6,504,507	
Total noncurrent assets		<u>6,504,507</u>	
Total assets	<u>3,982,142</u>	<u>178,316,634</u>	<u>41,068,767</u>
Liabilities			
Current liabilities			
Accounts payable	1,783,192	22,220,153	665,357
Accrued payroll		14,114,596	
Compensated absences		1,082,501	
Deferred revenue	1,023,051	248,760	
Deposits and other liabilities	<u>1,175,899</u>	<u>19,817,178</u>	
Total current liabilities	<u>3,982,142</u>	<u>57,483,188</u>	<u>665,357</u>
Noncurrent liabilities			
Compensated absences		11,750,144	
Deposits and other liabilities		8,804,377	
Total noncurrent liabilities		<u>20,554,521</u>	
Total liabilities	<u>3,982,142</u>	<u>78,037,709</u>	<u>665,357</u>
Net assets, unrestricted	<u>\$ 0</u>	<u>\$100,278,925</u>	<u>\$ 40,403,410</u>

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Auxiliary Enterprises	UUHC	Reimbursed Overhead
Operating Revenues and Expenses			
Revenues			
Sales and services	\$ 60,231,663	\$ 575,810,201	
Facilities and administration			\$ 59,298,186
Other operating revenues		12,756,493	
Total operating revenues	<u>60,231,663</u>	<u>588,566,694</u>	<u>59,298,186</u>
Expenses			
Compensation and benefits	14,046,840	265,954,360	18,019,133
Other operating expenses	34,359,978	280,180,084	27,117,413
Total operating expenses	<u>48,406,818</u>	<u>546,134,444</u>	<u>45,136,546</u>
Operating income	<u>11,824,845</u>	<u>42,432,250</u>	<u>14,161,640</u>
Nonoperating Revenues (Expenses)			
State appropriations		4,423,400	
Gifts		218,675	
Investment income (loss)	11,960	(206,012)	
Total nonoperating revenues	<u>11,960</u>	<u>4,436,063</u>	
Transfers			
Mandatory transfers, out	(14,655,546)	(13,604,939)	(1,727,337)
Nonmandatory transfers, in (out)	2,818,741	(33,125,267)	(10,234,946)
Total transfers, out	<u>(11,836,805)</u>	<u>(46,730,206)</u>	<u>(11,962,283)</u>
Increase in net assets	0	138,107	2,199,357
Net Assets			
Net assets - beginning of year	0	100,140,818	38,204,053
Net assets - end of year	<u>\$ 0</u>	<u>\$ 100,278,925</u>	<u>\$ 40,403,410</u>

STATEMENT OF CASH FLOWS

	Auxiliary Enterprises	UUHC	Reimbursed Overhead
Net cash provided (used) by			
Operating activities	\$ 12,641,776	\$ 14,932,064	\$ 14,976,247
Noncapital financing activities	(11,836,805)	(42,088,131)	(11,962,283)
Investing activities	11,960	11,200,832	
Net increase (decrease) in cash	<u>816,931</u>	<u>(15,955,235)</u>	<u>3,013,964</u>
Cash (deficit) - beginning of year	<u>(2,775,062)</u>	<u>45,218,755</u>	<u>33,265,898</u>
Cash (deficit) - end of year	<u><u>\$(1,958,131)</u></u>	<u><u>\$ 29,263,520</u></u>	<u><u>\$ 36,279,862</u></u>

19. SUBSEQUENT EVENTS

On July 14, 2005, the University issued \$30,480,000 of Hospital Revenue Refunding Bonds, Series 2005A. Principal on the bonds is due annually commencing August 1, 2009 through August 1, 2018. Bond interest is due semiannually commencing February 1, 2006 at rates ranging from 4.50% to 5.00%. Proceeds from these bonds will be used to partially refund Hospital Revenue Bonds, Series 1998 & 2001.

Also, on August 2, 2005, the University issued \$42,955,000 of Auxiliary and Campus Facilities Revenue Refunding Bonds, Series 2005A. Initial principal payment on the bonds is due April 1, 2006 and annually thereafter commencing on April 1, 2009 through April 1, 2020. Bond interest is due semiannually commencing October 1, 2005 at rates ranging from 3.00% to 5.00%. Proceeds from these bonds will be used to partially refund Auxiliary and Campus Facilities Revenue Bonds, Series 1998.

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ANNUAL FINANCIAL REPORT PREPARED BY:

The University of Utah | Controller's Office
201 South Presidents Circle, Room 408 | Salt Lake City, Utah 84112-9023
(801) 581-5077 | Fax (801) 585-5257

