



2009 Annual Financial Report
THE UNIVERSITY OF UTAH
A Component Unit of the State of Utah





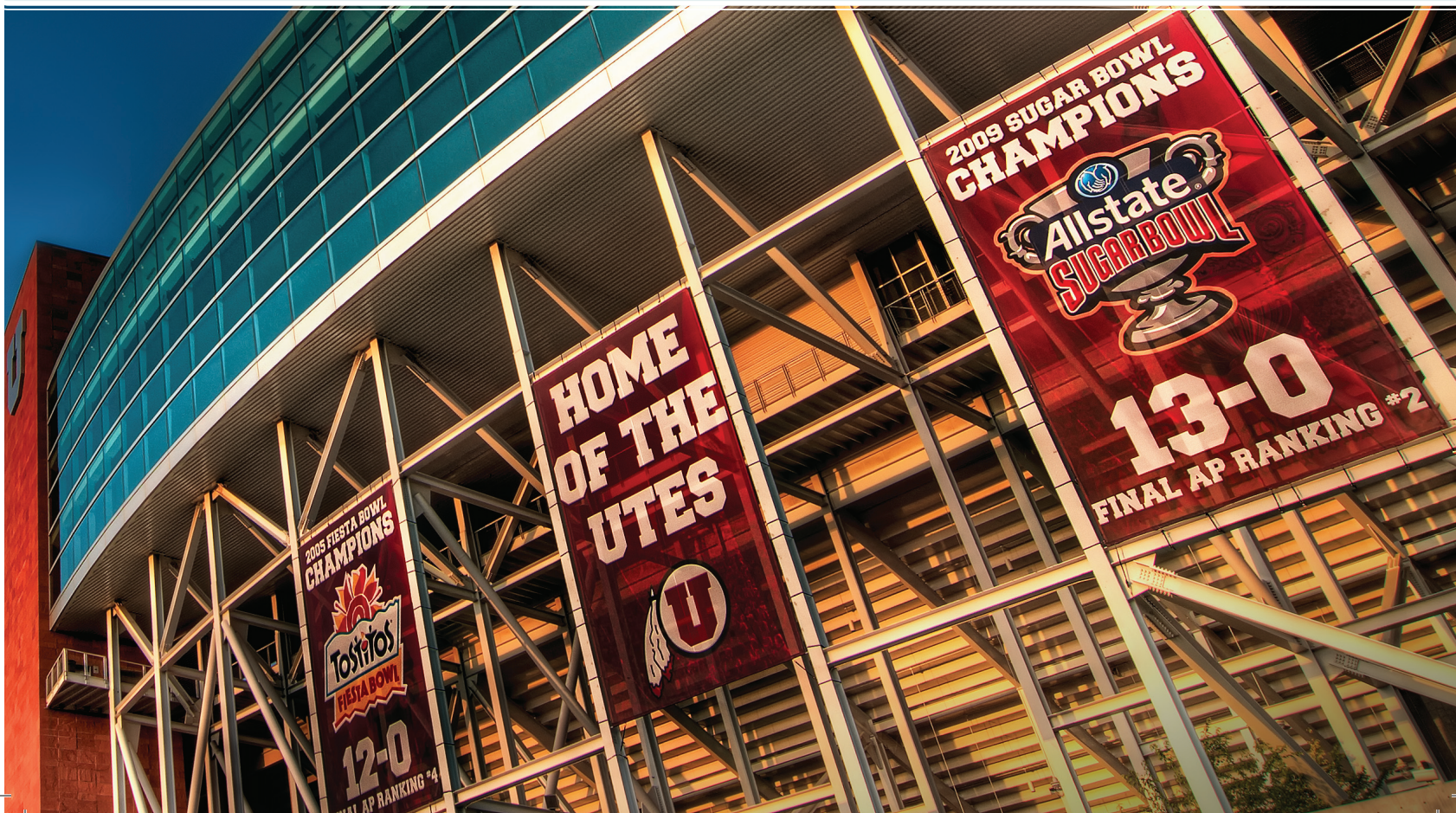




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Message from the President

This extraordinary University has a proud history of battling through difficult times and succeeding against unbelievable odds. Call it what you will—our innate organizational culture or just plain stubbornness—but that historical heritage is helping us once again to wrestle success from the midst of crisis.

Consider:

- Despite the economy, our fundraising this year is markedly better than that of last year. Generous friends and alumni understand that extraordinary things are happening at the U and have stepped forward in record numbers to support those noteworthy activities. In fact, more than 9,500 new donors joined the ranks of U of U supporters in the last 12 months, and almost 40,000 over the past three years.
- Funds secured for the University's scientific, engineering, and medical research activities increased a remarkable 16 percent during the 2009 fiscal year. That almost \$50 million increase boosted the U to \$354.7 million in research funding, a record for the University and the State.
- Extraordinary researchers and faculty from Harvard, UCLA, Brown, the University of Chicago, the University of North Carolina, and other prestigious institutions are coming to the University of Utah—and bringing with them additional research funding and the promise of new business spin-offs. The USTAR initiative, so wisely funded by the State Legislature, is quickly turning Utah into a strategic world center for nanomaterials and nanomedicine, genetics, bioimage analysis, and the neurobiology of developmental disorders.
- Applications to the University of Utah from high-performing students throughout the U.S. and the world are increasing. While higher education opportunities are disappearing elsewhere, the U has strategically channeled resources into programs and curricula that foster an extraordinary educational experience. The result is a campus population in which fully 10 percent of the students now qualify for honors status.

I could cite dozens of other examples that illustrate how the University is stepping up to the budget challenge with unflinching commitment to fulfill its mission. Certainly this has been a difficult and painful time for higher education, but we have chosen to light a candle rather than curse the darkness. I am extraordinarily honored to be a part of such a versatile, innovative, resolute, and yes, stubborn, organization.

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





Auston G. Johnson, CPA
UTAH STATE AUDITOR

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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 (the University), a component unit of the State of Utah, as of and for the year ended June 30, 2009, 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 Hospitals and Clinics or the University's blended component units, which represent approximately 25% (\$895,993,000) of total assets and 47% (\$1,243,723,000) 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 of Utah Hospitals and Clinics and the blended component units, is based on the reports of the other auditors. The prior year partial comparative information has been derived from the University's 2008 financial statements and, in our report dated November 14, 2008, we expressed an unqualified opinion, based on our audit and the reports of other auditors, on the 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 blended 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 on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the 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, 2009, 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 November 12, 2009 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, 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
November 12, 2009



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MANAGEMENT'S DISCUSSION & 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, 2009, with selected comparative information for the year ended June 30, 2008. 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 28,200 students, 2,350 full-time faculty members and more than 22,800 supporting staff. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels, through a framework of 19 schools, colleges and divisions; 99 academic departments; 27 interdisciplinary programs; and 52 centers and institutes. The University 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 and advancement of medical science and patient care - consistently ranking among the best health care systems in the western United States.

The University 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.

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) is a national clinical and anatomic pathology reference laboratory.

FINANCIAL HIGHLIGHTS

The University's financial position remained strong at June 30, 2009, with assets of \$3.6 billion and total liabilities of \$0.8 billion. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased by \$177.1 million to \$2.8 billion at June 30, 2009.

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, 2009 and 2008 in *Figure 1*.

Fiscal year 2009 revenues before change in fair value of investments increased 8.8% or \$222.2 million, while expenses increased 7.6%, or \$174.7 million. This resulted in a net gain before changes in fair value of investments of \$259.2 million for fiscal year 2009, as compared to \$211.7 million for fiscal year 2008.

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 3.1% during the past five 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 \$321.1 million and \$410.2 million for the years ended June 30, 2009 and 2008, respectively. Nonoperating expenses, which include interest expense, totaled \$32.5 million and \$33.8 million for the years ended June 30, 2009 and 2008, respectively.

Also, as required by GASB Statement No. 34, scholarships and fellowships applied to student accounts are shown as a reduction of auxiliary and tuition and fee revenues, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses. For the years ended June 30, 2009 and 2008, scholarship and fellowship expenses totaled \$26.0 million and \$24.6 million, respectively. In addition, scholarships and fellowships in the amount of \$24.5 million and \$22.7 million for the years ended June 30, 2009 and 2008, respectively, are reported as a reduction of tuition and fees and auxiliary enterprises revenue.

Other appropriate revenue items have also been reduced by the allowance for uncollectible amounts which is estimated each fiscal year.

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

Figure 1.

	<u>2009</u>	<u>2008</u>
	<i>(in thousands)</i>	
Total revenues before change in fair value of investments	\$ 2,744,689	\$ 2,522,491
Total expenses	2,485,491	2,310,805
Increase in net assets before change in fair value of investments	259,198	211,686
Decrease in fair value of investments	(82,102)	(42,130)
Increase in net assets	\$ 177,096	\$ 169,556

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, 2009 and 2008 is shown in *Figure 2*.

A review of the University's Statement of Net Assets at June 30, 2009 and 2008, 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 6.3 months of total operating expenses (excluding depreciation). Current cash and investments totaled \$856.8 million at June 30, 2009 and \$936.2 million at June 30, 2008. Net current receivables increased from \$288.8 million at June 30, 2008 to \$303.5 million at June 30, 2009.

Current liabilities consist primarily of trade accounts, accrued payroll, deposits, and other liabilities, which totaled \$361.7 million at June 30, 2009, as compared



to \$347.3 million at June 30, 2008. Current liabilities also include deferred revenue and the current portion of bonds, notes and contracts payable. Total current liabilities increased \$14.5 million during fiscal year 2009.

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

Figure 2.

	<i>2009</i>	<i>2008</i>
	<i>(in thousands)</i>	
Current assets	\$ 1,218,554	\$ 1,279,049
Noncurrent assets		
Endowment and other investments	660,869	672,264
Receivables, net	103,931	82,689
Capital assets, net	1,578,878	1,348,040
Other	69,768	75,235
Total assets	3,632,000	3,457,277
Current liabilities	361,738	347,254
Noncurrent liabilities	406,125	422,982
Total liabilities	767,863	770,236
Net assets	\$ 2,864,137	\$ 2,687,041



held 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 principal may be expended. Substantially all the University's endowments are restricted by the donor for a particular purpose. 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, most carry restrictions as to how the funds may be spent. Programs supported by endowment funds include scholarships, fellowships, professorships, research efforts and other important programs and activities.

The University has implemented investment guidelines for the University's Endowment Pool that are designed to maximize long-term results. The assets are strategically allocated to provide for broad diversification of the investments with a long-term goal of maximizing returns within acceptable risk levels for investment of endowment funds. Endowment funds that are invested in the University's endowment pool are invested on a unit basis similar to mutual funds where new dollars buy shares in the pool.

The Endowment Pool declined 14.3% during the 2009

fiscal year. Although the Endowment Pool declined in value, reports indicate that the University held up relatively well in a very difficult year for the endowment and foundation community. Significant upheavals in the financial markets during the year took their toll on performance for all investors. The S&P 500 index declined 26.2% while the global equity market as measured by the MSCI All Country World Index declined 28.9%. Domestic fixed income markets returned 6.0% as measured by the Barclays Aggregate Bond Index. The five-year annualized return for the Endowment Pool is 3.1% versus -2.2% for the S&P 500 and 5.0% for the Barclays Aggregate Bond Index.

The unrealized net loss on the endowment pool for the year ended June 30, 2009 totaled \$82.7 million compared to an unrealized loss of \$15.4 million for the year ended June 30, 2008.

Payout from the endowment pool is subject to a spending policy which determines a distribution rate that will be used to allocate funds to University departments based on the total market value of the 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, 2009, the spending policy was adjusted downward to 3.0% of the twelve quarter moving average of unit

market values. Given the unprecedented challenges in the financial environment, the endowment spending policy was adjusted to maintain the University's historically prudent approach to endowment spending.

The endowment pool is managed on a total return basis where funds available for distribution are derived from dividends earned, interest and unrealized gains. While the endowment pool earnings were \$11.6 million in fiscal year 2009, the University distributed \$16.5 million to operations. The difference of \$4.9 million was allocated from unrealized gains.

The University has a long-term view and manages the investment allocation and payout rate of endowment funds so that they can continue in perpetuity. While endowments are managed with a long-term view, the University feels it is prudent, during times of severe market stress, to lower the payout percentage to help preserve principal. Due to unprecedented levels of market volatility during the past year the payout rate was lowered to 3%, which approximates earnings in interest and dividends. The spending practice for endowments takes into account the expectation that any underwater situation of individual endowments is only temporary and not a permanent impairment. The market valuations will improve, and the underwater situations will resolve themselves over time with a return to an upward direction in the markets.

Gifts to permanent endowments totaled \$15.9 million and \$17.5 million for the fiscal years 2009 and 2008, 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 \$620.6 million in fiscal year 2009, as compared to \$244.4 million in fiscal year 2008. Capital additions include 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, 2009, totaled \$251.3 million that includes projects in numerous buildings across the campus. Significant projects include: a new patient services wing and parking facility for the University Hospital; a new facility for the Museum of Natural History; and a high temperature water plant.

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 AA/Aa2, the Hospital Revenue Bonds are AA/Aa2, the Research Facilities Revenue Bonds are AA-/Aa3, and the Certificates of Participation are AA-/Aa3, respectively. These ratings are considered high investment grade quality and position the University, if deemed necessary, to obtain future debt financing at lower interest rates.

Bonds payable totaled \$279.2 million and \$289.5 million at June 30, 2009 and 2008, respectively. The original purpose of all bond debt is to provide funds for the construction and renovation of major capital facilities and the acquisition of capital equipment for the University.

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, 2009, the University has 6.2 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 \$95.8 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, 2009 and 2008 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 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. *Graph 1* (operating revenue) and *Graph 2* (nonoperating revenue) are illustrations of revenues by source, which were used to fund the University's operations for the year ended June 30, 2009 (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 53.9% of total expenses, as well as in the areas of technology and utility costs. 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 \$8.4 million, or 5.2% to \$169.4 million in fiscal year 2009. State appropriations decreased 9.5% or \$28.1 million to \$266.8 million in fiscal year 2009 as a result of budget cuts at the state level.

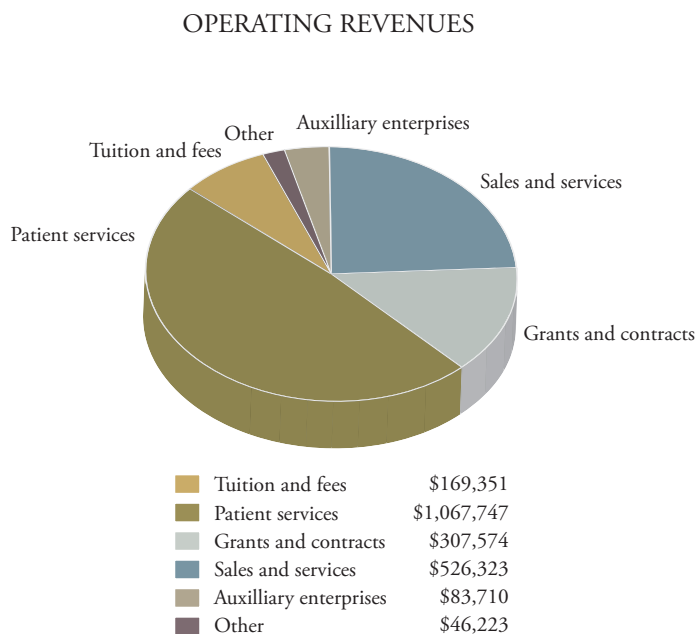
While tuition and state appropriations fund a significant percentage of the University's academic and administrative costs, private support has been, and will continue to be, essential to the University's academic success. Private support in the form of gift revenues for operations decreased 12.6%, or \$9.4 million, to \$65.0 million in fiscal year 2009. The University's continued emphasis on fund raising to support critical projects and initiatives is demonstrated by an aggressive capital campaign that is showing positive results despite a weak economic outlook.

Revenues for grants and contracts increased 9.5%, or \$26.8 million, to \$307.6 million in fiscal year 2009, primarily related to research programs. Grant and contract revenues are 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.

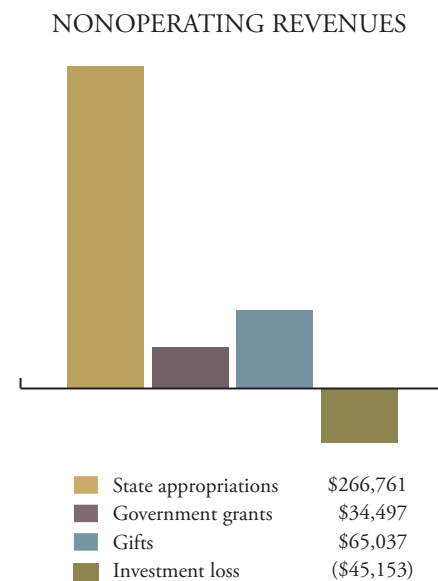
Figure 3.

	2009	2008
	<i>(in thousands)</i>	
Operating revenues		
Tuition and fees	\$ 169,351	\$ 160,915
Patient services	1,067,747	937,047
Grants and contracts	307,574	280,815
Sales and services	526,323	472,607
Auxiliary enterprises	83,710	75,404
Other	46,223	70,320
Total operating revenues	2,200,928	1,997,108
Operating expenses	2,453,010	2,277,040
Operating loss	(252,082)	(279,932)
Nonoperating revenues (expenses)		
State appropriations	266,761	294,907
Government grants	34,497	18,481
Gifts	65,037	74,449
Investment income (loss)	(45,153)	22,412
Interest expense	(18,117)	(20,240)
Other	(14,364)	(13,525)
Net nonoperating revenues	288,661	376,484
Capital appropriations	83,243	12,238
Capital and endowment grants and gifts	57,274	60,766
Total capital and endowment revenues	140,517	73,004
Increase in net assets	177,096	169,556
Net assets - beginning of year	2,687,041	2,517,485
Net assets - end of year	\$ 2,864,137	\$ 2,687,041

Graph 1.



Graph 2.





Patient care revenues increased 13.9% or \$130.7 million to \$1.1 billion in fiscal year 2009. The majority of these revenues relate to patient care services, which are generated within UUHC under contractual arrangements with governmental payers and private insurers. Revenues have sustained a relatively constant rate of growth over the last few years, primarily resulting 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, 2009 and 2008, consisted of the following components:

	<u>2009</u>	<u>2008</u>
	<i>(in thousands)</i>	
Interest and dividends, net	\$ 36,949	\$ 64,542
Net decrease in fair value of investments	(82,102)	(42,130)
Net investment income (loss)	<u>\$ (45,153)</u>	<u>\$ 22,412</u>

The University experienced net investment losses totaling \$45.2 million in fiscal year 2009, as compared to income of \$22.4 million in fiscal year 2008, which is a

decrease of \$67.6 million. This decrease is a direct result of the dramatic downturn in the financial markets over the course of the fiscal year. Market volatility and overall instability were sustained throughout the fiscal year even as a more positive outlook emerged by the end of the fiscal year. Recovery, while showing signs of improvement, has yet to return to “normal”.

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 \$15.1 million in fiscal year 2009, as compared to \$16.6 million in fiscal year 2008. In addition, in fiscal year 2009, \$1.4 million was returned to endowment principal.

Capital appropriations received from the State in fiscal year 2009, which totaled \$83.2 million, funded a portion of building renovation projects. Other revenues include capital grants and gifts and additions to permanent endowments totaling \$57.3 million for the fiscal year ending June 30, 2009.

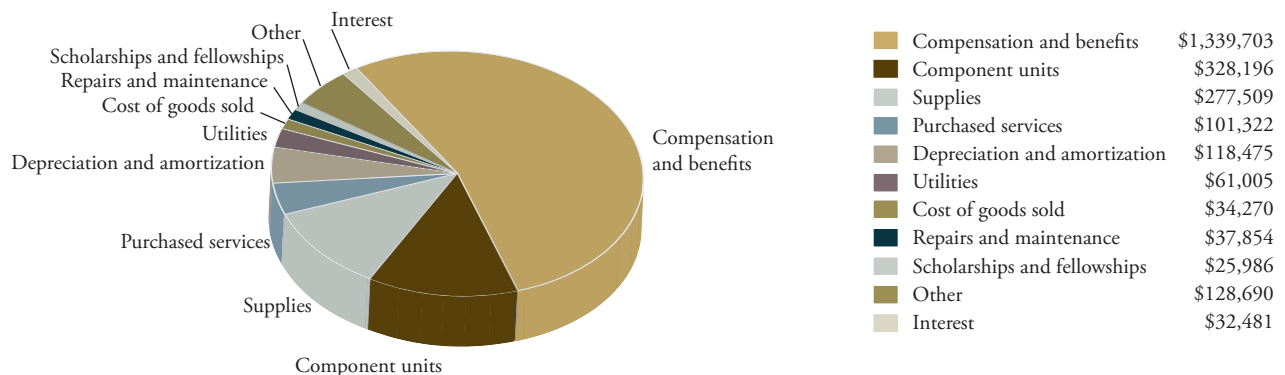
A comparative summary of the University's expenses for the years ended June 30, 2009 and 2008 follows:

	<u>2009</u>	<u>2008</u>
	<i>(in thousands)</i>	
Operating		
Compensation and benefits	\$ 1,339,703	\$ 1,226,252
Component units	328,196	287,603
Supplies	277,509	252,785
Purchased services	101,322	104,529
Depreciation and amortization	118,475	110,618
Utilities	61,005	56,958
Cost of goods sold	34,270	32,857
Repairs and maintenance	37,854	32,817
Scholarships and fellowships	25,986	24,556
Other	128,690	148,065
Total operating	2,453,010	2,277,040
Nonoperating		
Interest and other	32,481	33,765
Total expenses	\$ 2,485,491	\$ 2,310,805

Graph 3 is a graphic illustration of total expenses, in thousands of dollars, by natural classification.

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 9.3%, or \$113.5 million, to \$1.3 billion in fiscal year 2009. Of this increase, compensation increased 8.9%,

Graph 3.



or \$85.0 million, as a result of annual increases and the hiring of additional employees in departments not funded from state appropriations. The related employee benefits increased 10.6% or \$28.4 million predominantly due to increased benefits for Hospital employees.

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, 2009 and 2008 follows:

	<u>2009</u>	<u>2008</u>
	<i>(in thousands)</i>	
Instruction	\$ 318,573	\$ 282,156
Research	237,800	212,235
Public service	456,665	416,931
Academic support	85,169	78,307
Student services	21,640	20,252
Institutional support	33,367	63,929
Operations and maintenance of plant	60,560	56,004
Student aid	17,884	38,588
Other	90,063	130,657
Hospital	787,593	666,246
Component units	343,696	311,735
Total operating expenses	\$ 2,453,010	\$ 2,277,040

Instruction, research, and public service expenses increased 11.2%, or \$101.7 million, to \$1.0 billion in fiscal year 2009. Academic and institutional support expenses decreased 16.7%, or \$23.7 million, to \$118.5 million in fiscal year 2009.

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 decreased \$306.6 million due primarily to increased use of funds for purchase of capital assets and investments and increased principle payments on capital debt. This negative flow of funds was partially offset by funds received for patient services and auxiliary and educational services. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 9, include state appropriations and private gifts used to fund operating activities.

CURRENT FACTORS HAVING PROBABLE FUTURE FINANCIAL SIGNIFICANCE

The University's undergraduate enrollment for 2008-09 increased slightly for the first time in several years. Graduate enrollment continued its long-term, gradual increase. Enrollment at the undergraduate level is dependent on two factors, pool and participation, that are both heavily influenced by factors within the State of Utah. The available pool of potential students, age 18 through 29, is in the midst of a flat to modest decline, but that trend is expected to reverse within the next five years as K-8 students move into and through high school in record numbers. The participation rate had been under pressure in large part due to the State's robust economy and remarkably low unemployment rates but both changed significantly in 2008-09. For at least the short term, as the State works its way out of the recession, participation rates are likely to be relatively high. Indeed, enrollment for Fall 2009 is up significantly over the prior year partly in response to the slowing economy. The University is, in the meantime, adjusting its recruiting strategy while at the same time evaluating the need for additional infrastructure to support modest and sustainable growth in the future. Recently, the State passed legislation that makes it easier for domestic non-resident students to qualify for in-state tuition.

This may have a negative short-term impact on tuition revenue but it is likely to have a positive long-term effect on recruiting and related tuition revenue. It will have no impact on tuition revenue from international students, a growing focus of attention for the University's recruitment efforts.

During the 2009 legislative session, the University's recurring budget for 2009-10 was cut 17%. However, the State of Utah benefited from the American Recovery and Reinvestment Act (ARRA) and some of that stimulus funding was passed along to the University thus making the effective cut 9.5%. The University, as a result of receiving these funds and an increase in tuition, was able to buffer the effects of what would have been significantly deeper cuts. While some positions were eliminated as part of the cuts, many positions were retained as a result of the stimulus. Those funds are not recurring, however, so even if Utah's economy begins to rebound over the course of the next year, additional reductions in personnel are likely.

Despite a more cautious economic outlook, the University continues to receive worldwide recognition for the accomplishments of its researchers, physicians, and students. The University of Utah collected a record \$354.7 million in research funding during the 2009 fiscal year, an impressive 16 percent annual increase despite economic recession and only a little help from federal stimulus funds. For the 2009-2010 fiscal year, the University expects to see positive effects of the ARRA grant funding contribute to yet another excellent year. Awards for sponsored programs, which include basic research, continue to be strong – however, uncertainties within the federal budget for research could have a dramatic impact – either positively or negatively – on research in the coming years.

UUHC and ARUP continue to be recognized as leaders in their respective fields. While the financial position for each remains strong, vigilant monitoring is dictated by the current economic climate. Consequently, UUHC continues to evaluate very closely the increase in total uncompensated care provided to the uninsured or underinsured patients. Over the two-year period ended June 30, 2009, the average collections foregone due to charity increased significantly. Applications for

charity care have increased from an average of 382 requests per month in the first quarter of fiscal year 2009 to an average of 574 per month in the final quarter of fiscal year 2009. If the trend continues, stricter financial requirements for patients may be required.

In addition, the number of “Health Reform” proposals before the Congress of the United States is significant and, therefore, it may be some time before a consensus is achieved on an overall health care bill. It is impossible to project the impact on UUHC until a consensus bill is ultimately drafted. In 2009, the State of Utah passed health reform legislation, however, it is not expected that UUHC will see any significant impact from the new legislation in the short-term.

A major capital campaign, themed *Together We Reach*, was announced in Fall 2008. Despite the turmoil in the nation’s economy, the University continues to benefit from the generosity of its donors and supporters. Programmatic goals of the campaign include endowed chairs and professorships; honors initiatives; imaging programs; nanotechnology; and scholarships. Capital construction projects are also part of the campaign and include the expansion of teaching and research facilities such as the Beverley Taylor Sorenson Arts and Education Complex; Huntsman Cancer Hospital Phase IIB; The James L. Sorenson Molecular Biotechnology Building (a USTAR Innovation Center); the Utah Museum of Natural History at the Rio Tinto Center; and renovations in the College of Nursing and the College of Science.

The University continues to exercise a conservative approach to the issuance of debt. However, with the need for expanded research, patient care, and student life facilities, comes the need to issue debt to support construction. Within the next 1-3 years, the University intends to undertake various construction projects, in most cases partially gift-funded, to support these critical areas. In addition, the University evaluates existing debt versus current interest rates to identify opportunities to refinance at better rates.

The investment management of endowment assets requires balancing portfolio risks and expected returns over long periods of time. Our goal is to provide a

steady stream of income to the academic departments, clinical and research centers, and community programs while preserving the purchasing power of these assets for the benefit of future generations.

This past year we have seen extraordinary levels of financial market volatility. The Endowment Pool declined 14.3% for the 2009 fiscal year. The S&P 500 index declined 26.2% while the global equity market as measured by the MSCI All Country World Index declined 28.9%. Domestic fixed income markets returned 6.0% as measured by the Barclays Aggregate Bond Index. The five year annualized return for the Endowment Pool is 3.1% versus -2.2% for the S&P 500 and 5.0% for the Barclays Aggregate Bond Index. The Endowment Pool ended the 2009 fiscal year with a market value of \$409 million.

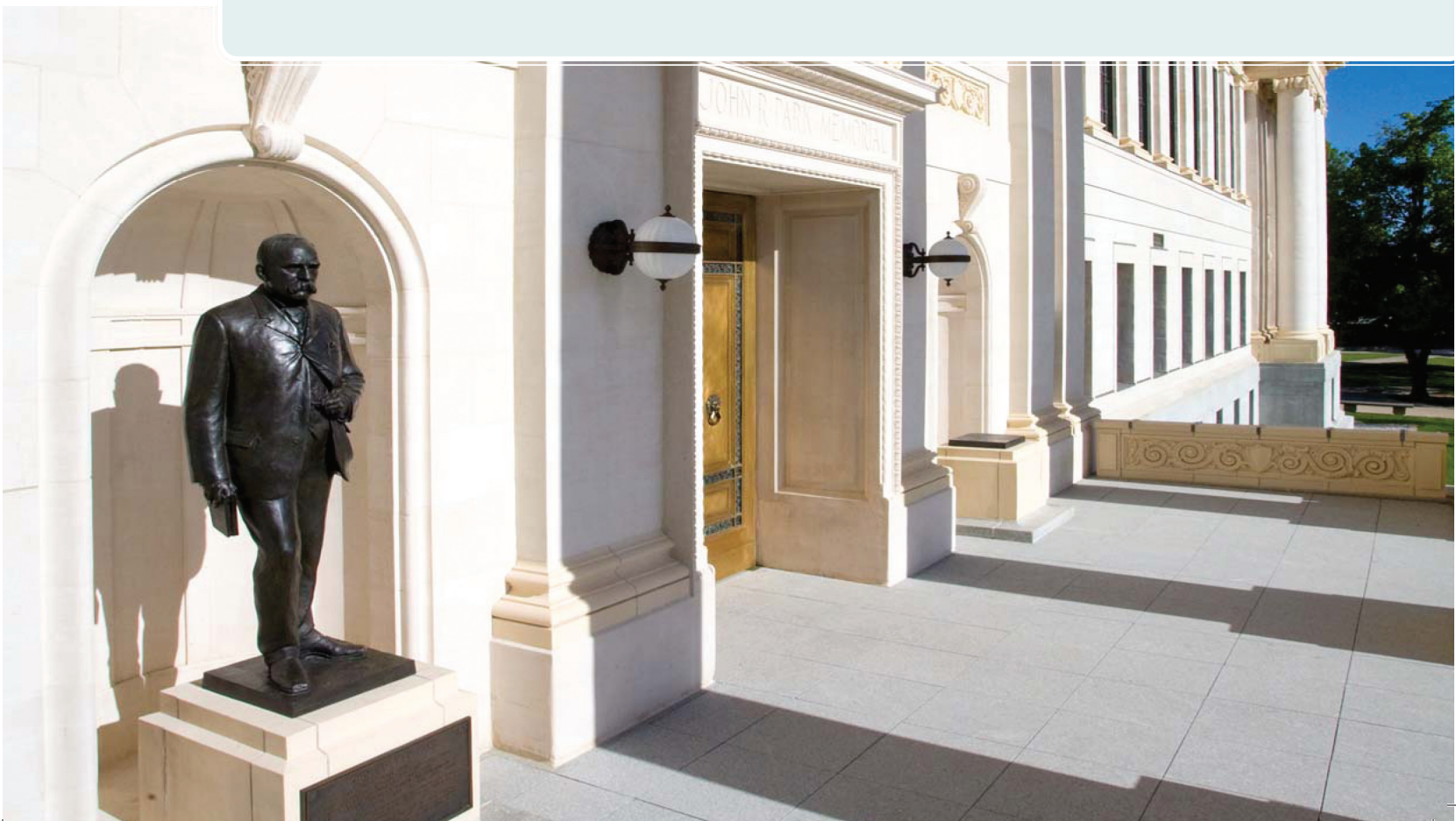
The University’s approach to investment and spending reflects the understanding that endowment assets are perpetual funds established by donors. These funds are managed so as to be available to current and future students, faculty, and visitors of the University of Utah. The University has invested in a portfolio of equity, fixed income and alternative assets whose valuations are impacted by market conditions, sometimes negatively in the short term – as was the case this past fiscal year. However, we believe our portfolio will provide solid financial footing for the University’s endowments over the long term.

Despite significant economic turmoil both nationally and at the State level, the University is fundamentally sound financially and should weather the current financial downturn. The institution has strong strategic leadership and prudent financial management that should guide us through additional budgetary challenges that may arise.





FINANCIAL STATEMENTS



THE UNIVERSITY OF UTAH | Statement of Net Assets

(in thousands of dollars)

As of June 30

	<u>2009</u>	[For Comparison Only] <u>2008</u>
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2 & 4)	\$ 255,979	\$ 516,750
Short-term investments (Notes 2 & 4)	600,854	419,479
Receivables, net (Note 5)	303,510	288,776
Inventory (Note 1)	40,019	35,153
Other assets (Note 6)	18,192	18,891
Total current assets	1,218,554	1,279,049
Noncurrent Assets		
Restricted cash and cash equivalents (Notes 2 & 4)	18,149	63,995
Restricted short-term investments (Notes 2 & 4)	49,216	25,343
Investments (Notes 3 & 4)	343,965	268,650
Restricted investments (Notes 3 & 4)	249,539	314,276
Restricted receivables, net (Note 5)	103,931	82,689
Donated property held for sale	1,809	1,969
Other assets (Note 6)	67,959	73,266
Capital assets, net (Note 7)	1,578,878	1,348,040
Total noncurrent assets	2,413,446	2,178,228
Total assets	3,632,000	3,457,277
LIABILITIES		
Current Liabilities		
Accounts payable		
to the State of Utah	18,555	5,397
to Others	85,567	81,520
Accrued payroll	91,268	74,752
Compensated absences & early deferred revenue (Note 1)	4,939	4,966
Deferred revenue (Note 9)	66,991	31,947
Deposits & other liabilities (Notes 11 & 15)	68,052	123,175
Bonds, notes and contracts payable (Notes 14, 15, & 16)	26,366	25,497
Total current liabilities	361,738	347,254
Noncurrent Liabilities		
Compensated absences & early retirement benefits (Note 1)	42,788	39,101
Deposits & other liabilities (Notes 11 & 15)	9,492	12,617
Bonds, notes and contracts payable (Notes 14, 15, & 16)	353,845	371,264
Total noncurrent liabilities	406,125	422,982
Total liabilities	767,863	770,236
NET ASSETS		
Invested in capital assets, net of related debt	1,202,270	993,443
Restricted for		
Nonexpendable		
Instruction	95,540	109,208
Research	30,121	36,132
Public service	46,017	53,804
Academic support	29,015	33,956
Scholarships	102,468	112,064
Other	5,352	6,455
Expendable		
Research	123,784	133,498
Public service	85,756	84,935
Academic support	29,611	48,127
Institutional support	49,774	49,663
Loans	34,888	34,978
Debt service		868
Capital additions	170,838	148,029
Other	18,050	28,395
Unrestricted	840,653	813,486
Total net assets	\$ 2,864,137	\$ 2,687,041

The accompanying notes are an integral part of these financial statements

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

(in thousands of dollars)

For the Year Ended June 30

	[For Comparison Only]	
	2009	2008
OPERATING REVENUES AND EXPENSES		
Revenues		
Tuition and fees, net (Note 1)	\$ 169,351	\$ 160,915
Patient services, net (Notes 1 & 13)	1,067,747	937,047
Federal grants and contracts	211,260	187,436
State and local grants and contracts	16,506	14,813
Nongovernmental grants and contracts	79,808	78,566
Sales and services, net (Note 1)	526,323	472,607
Auxiliary enterprises, net (Note 1)	83,710	75,404
Other operating revenues	46,223	70,320
Total operating revenues	2,200,928	1,997,108
Expenses		
Compensation and benefits	1,339,703	1,226,252
Component units	328,196	287,603
Supplies	277,509	252,785
Purchased services	101,322	104,529
Depreciation and amortization	118,475	110,618
Utilities	61,005	56,958
Cost of goods sold	34,270	32,857
Repairs and maintenance	37,854	32,817
Scholarships and fellowships	25,986	24,556
Other operating expenses	128,690	148,065
Total operating expenses	2,453,010	2,277,040
Operating loss	(252,082)	(279,932)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	266,761	294,907
Government grants	34,497	18,481
Gifts	65,037	74,449
Investment income (loss)	(45,153)	22,412
Interest	(18,117)	(20,240)
Other nonoperating expenses	(14,364)	(13,525)
Total nonoperating revenues	288,661	376,484
Income before capital and permanent endowment additions	36,579	96,552
CAPITAL AND PERMANENT ENDOWMENT ADDITIONS		
Capital appropriations	83,243	12,238
Capital grants and gifts	41,419	43,274
Additions to permanent endowments	15,855	17,492
Total capital and permanent endowment additions	140,517	73,004
Increase in net assets	177,096	169,556
NET ASSETS		
Net assets - beginning of year	2,687,041	2,517,485
Net assets - end of year	\$ 2,864,137	\$ 2,687,041

The accompanying notes are an integral part of these financial statements

THE UNIVERSITY OF UTAH | Statement of Cash Flows

(in thousands of dollars)

For the Year Ended June 30

	<u>2009</u>	<u>2008</u>
		[For Comparison Only]
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees	\$ 173,048	\$ 159,000
Receipts from patient services	1,071,092	938,762
Receipts from grants and contracts	297,995	273,833
Receipts from auxiliary and educational services	611,036	550,095
Collection of loans to students	4,765	4,724
Payments to suppliers	(950,502)	(981,253)
Payments for compensation and benefits	(1,338,303)	(1,222,823)
Payments for scholarships and fellowships	(25,986)	(24,556)
Loans issued to students	(4,500)	(4,687)
Other	22,765	84,038
Net cash used by operating activities	(138,590)	(222,867)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	266,761	294,907
Government grants	34,497	18,481
Gifts		
Endowment	15,905	18,527
Nonendowment	72,768	76,879
Other	(14,508)	(13,125)
Net cash provided by noncapital financing activities	375,423	395,669
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	30,202	
Capital appropriations	24,302	10,945
Gifts	13,099	17,747
Purchase of capital assets	(277,646)	(180,069)
Principal paid on capital debt	(55,145)	(40,186)
Interest paid on capital debt	(18,061)	(20,011)
Net cash used by capital and related financing activities	(283,249)	(211,574)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,218,182	549,863
Receipt of interest and dividends on investments	36,657	62,666
Purchase of investments	(1,515,040)	(680,191)
Net cash used by investing activities	(260,201)	(67,662)
Net decrease in cash	(306,617)	(106,434)
Cash - beginning of year	580,745	687,179
Cash - ending of year	\$ 274,128	\$ 580,745

Continued on next page...

The accompanying notes are an integral part of these financial statements

THE UNIVERSITY OF UTAH | Statement of Cash Flows (cont'd)

(in thousands of dollars)

For the Year Ended June 30

	2009	[For Comparison Only] 2008
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (252,082)	\$ (279,932)
Adjustments		
Depreciation expense	118,475	110,618
Change in assets and liabilities		
Receivables, net	(20,300)	(17,100)
Inventory	(4,866)	(2,779)
Donated property held for sale		
Other assets	6,006	(65,270)
Accounts payable	17,205	2,411
Accrued payroll	16,516	993
Compensated absences & early retirement benefits	3,659	2,435
Deferred revenue	35,044	5,339
Deposits and other liabilities	(58,247)	20,418
Net cash used by operating activities	\$ (138,590)	\$ (222,867)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital leases	\$ 8,081	\$ 20,389
Donated property and equipment	4,245	8,475
Completed construction projects transferred from State of Utah (Note 1)	58,941	1,292
Annuity and life income	87	163
Decrease in fair value of investments	(82,102)	(42,130)
Total noncash investing, capital, and financing activities	\$ (10,748)	\$ (11,811)

The accompanying notes are an integral part of these financial statements



NOTES TO FINANCIAL STATEMENTS

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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 (State). 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. The component units of the University are the University of Utah Research Foundation (UURF) and Associated Regional and University Pathologists, Inc. (ARUP). Copies of the financial report of each component unit can be obtained from the respective entity.

- UURF is a not-for-profit corporation governed by a board of directors who, with the exception of one, are affiliated with the University. The operations of UURF include the leasing and 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. As part of its mission to advance technology commercialization, UURF creates new corporate entities to facilitate the startup process. In general, these entities do not have assets. Expenses related to the companies are expensed as incurred. The fiscal year end for UURF is June 30. UURF is audited by other independent auditors and their report, dated October 30, 2009, has been issued under separate cover.
- ARUP is a for-profit corporation that provides clinical and anatomic pathology reference laboratory serv-

es 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 28, 2009, 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.

The following standards, issued by the GASB, became applicable in fiscal year 2009:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The University early adopted this standard in the fiscal year 2008. As of June 30, 2009, the University did not have any remediation obligations subject to the accounting and financial reporting obligations of this standard.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The University endowment does not have land and other real estate held for investment purposes. Implementation of this standard did not impact the financial statements for fiscal year 2009.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Implementation of this standard had no effect on the University's financial statements or accounting practices.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. Implementation of this standard had no effect on the University's financial statements or accounting practices.

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 non-operating 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*. Operating revenues include tuition and fees, grants and contracts, patient services, and revenue from various auxiliary and public service functions. Nonoperating revenues include state appropriations, Pell grants and certain government grants, gifts, and investment income. Operating expenses include compensation and benefits, student aid, supplies, repairs and maintenance, utilities, etc. Nonoperating expenses primarily include interest on debt obligations.

When both restricted and unrestricted resources are available, such resources are spent and tracked at the discretion of the department subject to donor restrictions, where applicable.

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 is reported net of third-party adjustments.

C. Investments

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 income. 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.

A portion of the University's endowment portfolio is invested in "alternative investments". These investments, unlike more traditional investments, generally do not have readily obtainable market values and typically take the form of limited partnerships. See Note 19 for more information regarding these investments and the University's outstanding commitments under the terms of the partnership agreements. The University values these investments based on audited financial statements, generally as of December 31, progressed to the University's financial statement date by taking into account investment transactions subsequent to the audited statements.

D. Allowances

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, 2009 and 2008:

Revenue Allowance	2009	2008
Tuition and fees	\$ 23,547,807	\$ 21,919,239
Patient services	59,983,662	48,537,228
Sales and services	23,774	23,769
Auxiliary enterprises	934,850	804,377

E. Inventories

The University Campus Store's 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.

F. Research and Development Costs

Research and development costs of ARUP are expensed as incurred. These costs for the year ended June 30, 2009, were approximately \$9,688,000.

G. Compensated Absences & Early Retirement 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, 2009, was approximately \$44,767,000.

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 may provide early retirement benefits, if approved by the Administration and by the Board of Trustees, for certain employees who have attained the age of 60 with at least fifteen years of service and who have been approved for the University's early retirement program. Currently, 94 employees participate in the early retirement program. 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, which is approximately 50% of their early retirement salary, until the employee reaches full social security retirement age. In accordance with GASB Statement No. 47, *Accounting for Termination Benefits*, the amount recognized on the financial statements was calculated at the discounted present value of the projected future costs. A discount rate of 1.931% was used and is based on the average rate earned by the University on cash management investments for the fis-

cal year. The funding for these early retirement benefits is provided on a pay-as-you-go basis. For the year ended June 30, 2009, these expenditures were approximately \$1,958,000.

H. 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 are not recorded on the books of the University until the facility is available for occupancy.

I. Disclosures

Financial information for fiscal year ended June 30, 2008 is included for comparison only and is not complete. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Complete information is available in the separately issued financial statements for that year.

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 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

managed 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.

Short-term investments have original maturities longer than three months and remaining maturities of one year or less.

At June 30, 2009, cash and cash equivalents and short-term investments consisted of:

Cash and Cash Equivalents	
Cash	\$ (14,634,653)
Money market funds	8,111,249
Time certificates of deposit	22,987,986
Commercial paper	20,943,485
Utah Public Treasurer's Investment Fund	115,614,022
U.S. Treasuries	5,316,809
U.S. Agencies	115,788,991
Total (fair value)	\$ 274,127,889

Short-term Investments	
Time certificates of deposit	\$ 3,485,034
U.S. Treasuries	334,775,148
U.S. Agencies	292,054,957
Corporate notes	19,755,340
Total (fair value)	\$ 650,070,479

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 fair value on the date of receipt. If fair value is not 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 along with the right to receive future royalties based on product sales. Inasmuch as the stock is ordinarily not actively traded, the fair value is generally not ascertainable and any realization from the future 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, 2009.

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

According to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Section 51-8 of the *Utah Code*, the institution may appropriate for expenditure or accumulate so much of an endowment fund as the University determines to be prudent for uses, benefits, purposes, and duration for which the endowment was established.

The endowment income spending practice at June 30, 2009, is 3% of the twelve quarter moving average of the market value of the endowment pool. The spending practice is reviewed periodically and any necessary changes are made. In general, nearly all of the University's endowment is subject to spending restrictions imposed by donors.

The amount of net appreciation on investments of donor-restricted endowments available for authorization for expenditure at June 30, 2009, was approximately \$7,438,000. The net appreciation is a component of restricted expendable net assets.

At June 30, 2009, the investment portfolio composition was as follows:

Investments	
U.S. Treasuries	\$ 242,423,338
U.S. Agencies	1,005,495
Corporate notes and bonds	2,316,180
Mutual funds	338,918,001
Common and preferred stocks	8,840,737
Total (fair value)	\$ 593,503,751

4. DEPOSITS AND INVESTMENTS

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

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

For endowment funds, the University follows the requirements of the UPMIFA, State Board of Regents' Rule 541, *Management and Reporting of Institutional Investments* (Rule 541), and the University's investment policy and endowment guidelines.

Deposits

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

At June 30, 2009, the carrying amounts of the University's deposits and bank balances were \$28,996,350 and \$30,169,951, respectively. On October 3, 2008, the Federal Deposit Insurance Corporation (FDIC) temporarily increased the deposit insurance coverage to \$250,000 for each depositor at each banking institution. On January 1, 2014, the amount of insurance coverage will revert back to \$100,000. As a result, the bank balances of the University were insured for \$500,000, by the FDIC. The bank balances in excess of \$500,000 were uninsured and uncollateralized, leaving

\$29,669,951 exposed to custodial credit risk. The University's policy for reducing this risk of loss is to deposit all such balances in qualified depositories, as defined and required by the Act.

Investments

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

These statutes authorize the University to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The UPMIFA, Rule 541, and the University's endowment guidelines allow the University to invest endowment funds (including gifts, devises, or bequests of property of any kind from any source) in any of the above investments or any of the following subject to satisfying certain criteria: professionally managed pooled or commingled investment funds registered with the Securities and Exchange Commission or the Comptroller of the Currency (e.g., mutual funds); professionally managed pooled or commingled investment funds created under 501(f) of the Internal Revenue Code which satisfy the conditions for exemption from registration under Section 3(c) of the Investment Company Act of 1940; any investment made in accordance with the donor's directions in a written instrument; and any alternative investment funds that derive returns pri-

marily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, and private real estate assets or absolute return and long/short hedge funds.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the 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, 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, including 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 or holding derivatives. However, specific information about any such transactions is not available to the University.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act or the UPMIFA and

Rule 541, as applicable. For non-endowment funds, Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years. For endowment funds, Rule 541 is more general, requiring only that investments be made as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowments and by exercising reasonable care, skill, and caution.

As of June 30, 2009, the University had investments with maturities as shown in *Figure 1*.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for reducing its exposure to credit risk is to comply with the Act, the UPMIFA, and Rule 541, as previously discussed.

At June 30, 2009, the University had investments with 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 its investments that are in the possession of

Figure 1.

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
Money market mutual funds	\$ 7,847,973	\$ 7,847,973			
Time certificates of deposit	3,485,034	3,485,034			
Commercial paper	20,943,485	20,943,485			
Utah Public Treasurer's Investment Fund	115,614,022	115,614,022			
U.S. Treasuries	582,515,295	340,091,957	\$ 242,423,338		
U.S. Agencies	408,849,443	407,843,948	1,005,495		
Corporate notes and bonds	22,071,520	19,755,340	2,316,180		
Mutual bond funds	91,093,631		2,120,058	\$ 88,973,573	\$ 0
Totals	\$ 1,252,420,403	\$ 915,581,759	\$ 247,865,071	\$ 88,973,573	\$ 0

an outside party. The University's policy for reducing its exposure to custodial credit risk is to comply with applicable provisions of the Act. As required by the Act, all applicable securities purchased were delivered versus payment and held in safekeeping by a bank. Also, as required, the ownership of book-entry-only securities, such as U.S. Treasury or Agency securities, by the University's custodial bank was reflected in the book-entry records of the issuer and the University's ownership was represented by a receipt, confirmation, or statement issued by the custodial bank.

At June 30, 2009, the University's custodial bank was both the custodian and the investment counterparty for \$953,539,987 of U.S. Treasury and Agency securities purchased by the University and \$37,824,751 of U.S. Treasury securities were held by the custodial bank's trust department but not in the University's name.

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 Council or the UPMIFA and Rule 541, as applicable. Rule 17 of the Council limits non-endowment fund investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

For endowments, the University, under Rule 541, is permitted to establish its own investment policy which adheres to the guidelines established by UPMIFA. Accordingly, the University's Pool Asset Allocation Guide-

lines allocates endowment funds in the following asset classes:

Asset Class	Target Allocation	Allocation Range
Global Marketable		
Equities	45%	20% - 60%
Global Marketable		
Fixed Income	30%	25% - 50%
Alternatives	25%	5% - 30%

The University diversifies assets among several investment managers of varying investment strategies. Diversification is an effective means of maximizing return while mitigating risk.

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. 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.

Figure 2.

Investment Type	Fair Value	Quality Rating			
		AAA/A-1	A	Unrated	No Risk
Money market mutual funds	\$ 7,847,973	\$ 75,017		\$ 7,772,956	
Time certificates of deposit	3,485,034		\$ 3,485,034		
Commercial paper	20,943,485	20,943,485			
Utah Public Treasurer's Investment Fund	115,614,022			115,614,022	
U.S. Treasuries	582,515,295				\$ 582,515,295
U.S. Agencies	408,849,443	408,849,443			
Corporate notes and bonds	22,071,520		22,071,520		
Mutual bond funds	91,093,631			91,093,631	
Totals	\$ 1,252,420,403	\$ 429,867,945	\$ 25,556,554	\$ 214,480,609	\$ 582,515,295

The following schedule presents receivables at June 30, 2009, including approximately \$26,038,000 and \$77,893,000 of noncurrent loans and pledges receivable, respectively:

Accounts	\$ 396,825,891
Grants and contracts	46,301,983
Notes	100,000
Loans	31,926,846
Pledges	80,684,701
Interest	4,677,988
	560,517,409
Less allowances for doubtful accounts	(153,076,399)
Receivables, net	\$ 407,441,010

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 and prepaid rent to the State of Utah for the Huntsman Cancer Hospital are amortized using the straight-line method. The June 30, 2009 balance of prepaid rent to the State was \$60,857,611.

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 \$1,000 for UUHC. All costs incurred in the acquisition of library materials are capitalized. 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 extend 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, 2009, the University had outstanding commitments for the construction and remodeling of University buildings of approximately \$27,376,000.

Capital assets at June 30, 2009, 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), Fidelity Investments (Fidelity), or the Vanguard Group, Inc. (Vanguard). 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 *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 9.73% 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 14.22% (with an additional 1.50% to a 401(k) salary deferral program) and 29.55%, 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, Fidelity, and Vanguard provide individual retirement fund contracts with each participating employee. Employees may allocate contributions by the University to any or all of the providers and the contributions to the employee's contract(s) 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. Benefits provided to retired employees are based on the value of the individual contracts and the estimated life expectancy of the employee at retirement. For the year ended June 30, 2009, the University's contribution to these defined contribution pension plans was 14.20% of the employees' annual salaries. Additional contributions are made by the University based on employee contracts. The University has no further liability once contributions are made. Certain

Figure 3.

	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	\$ 1,359,853,827	\$ 180,753,355		\$ 1,540,607,182
Infrastructure and improvements	162,435,655	15,807,587		178,243,242
Land	18,878,435		\$ 328,640	18,549,795
Equipment	563,787,945	89,153,430	22,053,090	630,888,285
Library materials	153,604,361	2,568,887	283,065	155,890,183
Art and special collections	47,636,161	2,739,783	46,857	50,329,087
Construction in progress	190,651,795	269,512,364	208,824,754	251,339,405
Total cost	2,496,848,179	560,535,406	231,536,406	2,825,847,179
Less accumulated depreciation				
Buildings	570,821,131	49,030,580		619,851,711
Infrastructure and improvements	94,304,569	9,576,500		103,881,069
Equipment	389,080,338	53,633,422	19,561,208	423,152,552
Library materials	94,601,913	5,481,580		100,083,493
Total accumulated depreciation	1,148,807,951	117,722,082	19,561,208	1,246,968,825
Capital assets, net	\$ 1,348,040,228	\$ 442,813,324	\$ 211,975,198	\$ 1,578,878,354

UUHC 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 6.00% of the employees' annual salaries.

The ARUP defined contribution pension and profit sharing plans provide retirement benefits for all employees. Effective August 4, 2007, ARUP implemented a change in the defined contribution pension plan which allows employees to choose whether to continue to pay into the federal social security tax system or to participate in an enhanced ARUP retirement program. For those who choose to continue to pay social security taxes, ARUP makes contributions each pay period amounting to 5.00% of their compensation and ARUP continues to make matching social security tax contributions. For those who discontinue paying social security taxes, ARUP makes contributions each pay period amounting to 8.10% of their compensation and do not have any social security tax contributions made by ARUP on their behalf. There are no minimum service and vesting requirements relating to pension contributions.

Contributions to the profit sharing plan are at the discretion of ARUP and are made subject to certain tenure-based and hours-worked thresholds. Employees are fully vested in the profit sharing plan after five years of service. For the years ended June 30, 2009, 2008, and 2007, 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 session tuition

and fees, advance payments on grants and contracts, advance ticket sales for various athletic and cultural events, and results of normal operations of auxiliary enterprises and service units.

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, 2009, was \$71,903,843.

In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of \$10,933,321 as of June 30, 2009, based on a predetermined formula. The fair value of this stock as of June 30, 2009 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.

Figure 4.

	2009	2008	2007
State and School Contributory Retirement System	\$ 1,527,460	\$ 1,555,310	\$ 1,581,565
State and School Noncontributory Retirement System	26,010,222	25,209,056	24,259,347
Public Safety Noncontributory Retirement System	403,770	316,579	328,163
TIAA-CREF	66,282,674	63,247,520	70,903,307
Fidelity	18,564,335	7,457,205	
Vanguard	2,706,528	1,808,724	
Pension plan	8,758,713	7,280,524	3,498,662
Profit sharing plan	8,079,552	7,036,696	6,050,982
Total contributions	\$132,333,254	\$ 113,911,614	\$ 106,622,026

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, 2009, 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*, as amended by GASB Statement No. 30, *Risk Financing Omnibus*, 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, 2009, 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.

12. INCOME TAXES

The University, as a political subdivision of the State, 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

Figure 5.

	2009	2008
Estimated claims liability - beginning of year	\$ 70,529,051	\$ 66,157,336
Current year claims and changes in estimates	144,002,554	147,574,679
Claim payments, including related legal and administrative expenses	(164,276,648)	(143,202,964)
Estimated claims liability - end of year	\$ 50,254,957	\$ 70,529,051

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 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 care during the year ended June 30, 2009, were approximately \$34,075,000.

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 eighteen 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.

At June 30, 2009, the historical cost of land and buildings held for lease and the related accumulated depreciation were \$39,191,696 and \$13,238,338, respectively.

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 \$7,420,000 and \$76,731,164 for buildings and equipment, respectively. Accumulated depreciation for these buildings and equipment amounts to \$742,000 and \$46,029,637, respectively. 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 \$19,807,230 for the University and \$5,934,203 for component units for the year ended June 30, 2009. Total operating lease commitments for the University include approximately \$9,477,784 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 real estate investment trust in which one of its directors is a shareholder. The agreements have initial terms of fifteen years with renewal options ranging from ten to twenty years and include rent increases of two to three percent annually in the sixth and eleventh years from the commencement of the lease. ARUP also leases space from another company in which one of its directors is an owner. Total lease payments for the year ended June 30, 2009 were \$5,499,981.

Future minimum lease commitments for operating and capital leases as of June 30, 2009 are shown in *Figure 6*.

15. BONDS PAYABLE & OTHER LONG-TERM LIABILITIES

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

The State Board of Regents 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.

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 or any other political subdivision of the State is pledged to the payment of the bonds, the distributions or other costs associated with the bonds.

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, 2009, is \$5,115,000.

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 JP-Morgan Chase Bank and is valid through July 30, 2010. As a result of the Lehman Brothers bankruptcy, several remarketing attempts failed during September 2008. While funds were drawn during this period, eventually all bonds were successfully remarketed and the issue was resolved by the end of October. The interest requirement for the Series 1997A Bonds is calculated using an annualized interest rate of 0.40%, which is the rate in effect at June 30, 2009.

The Hospital Revenue Bond Series 2006B also experienced failed attempts to remarket bonds during September 2008. Funds were drawn on a standby bond purchase agreement with DEPFA Bank and eventually

Figure 6.

Fiscal Year	Operating	Capital
2010	\$ 27,568,794	\$ 13,713,110
2011	26,199,048	11,535,022
2012	23,382,171	9,482,506
2013	21,034,002	7,050,942
2014	19,819,357	3,114,091
2015 – 2019	73,666,877	3,813,776
2020 – 2024	41,131,376	2,450,808
2025 – 2029	14,114,540	
2030 – 2034	3,078,325	
2035 – 2039	875,000	
2040 – 2044	875,000	
2029 – 2029	875,000	
Total future minimum lease payments	<u>\$ 252,619,490</u>	51,160,255
Amount representing interest		(5,394,453)
Present value of future minimum lease payments		<u>\$ 45,765,802</u>



the bonds were successfully remarketed by the end of October. In December, this bond series was refunded with the Hospital Revenue Refunding Bonds Series 2008.

The Hospital Revenue Refunding Bonds Series 2008 currently bear interest at a weekly rate in accordance with the bond provisions. When a daily rate is in effect, the Series 2008 Bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. 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 plus accrued interest. If any Series 2008 bonds cannot be remarketed to new holders, the tender agent is required to draw on an irrevocable letter of credit to pay the purchase price of the bonds delivered to it. The letter of credit is with Wells Fargo Bank, N.A. and is scheduled to expire on December 1, 2010 or earlier on the occurrence of certain events. Through June 30, 2009, no funds have been drawn against the letter of credit agreement. The interest requirement for the Series 2008 Bonds is calculated using an annualized interest rate of 0.25%, which is the rate in effect at June 30, 2009.

Figure 7 lists the outstanding bonds payable and certificates of participation of the University at June 30, 2009.

UURF has purchased three buildings with two mortgages that are guaranteed by the University. The remaining amounts of the mortgages are \$5,467,388 at 8.87% interest and \$2,695,955 at 7.15% interest. The mort-

gages will be paid off on April 1, 2020 and September 1, 2021, respectively. In addition, UURF agreed to bear 42.04% of the cost to renovate the building at 417 Warkara Way for the Health Science Center. The remaining balance of debt related to those costs is \$2,936,494 at interest rates ranging from 3.00% to 4.70%.

The schedule in *Figure 8* summarizes the changes in long-term liabilities for the year ended June 30, 2009.

Maturities of principal and interest requirements for long-term debt payable are as follows:

Fiscal Year	Payments	
	Principal	Interest
2010	\$ 26,365,643	\$ 16,077,901
2011	27,159,019	15,053,468
2012	23,937,680	14,023,974
2013	22,296,919	13,135,168
2014	19,289,844	12,339,271
2015 - 2019	81,631,883	49,831,104
2020 - 2024	76,214,639	32,336,237
2025 - 2029	77,094,727	15,880,814
2030 - 2034	26,220,121	1,660,376
Total	\$ 380,210,475	\$ 170,338,313

Interest related to bonds systems with pledged revenues amounts to \$141,731,377 and is included in the interest amounts in the above schedule.

Figure 7.

Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2009(a)
Auxiliary and Campus Facilities						
Series 1987A - Refunding	3/1/87	2014	3.750% - 6.750%	\$ 11,140,000	\$ 250,000	\$ 815,000
Series 1997A - Revenue	7/30/97	2027	Variable	52,590,000	1,265,000	8,810,000
Series 1998A - Revenue Refunding	7/1/98	2016	4.100% - 5.250%	120,240,000	24,177	53,664,302
Series 1999A - Revenue	5/1/99	2014	4.000% - 4.800%	5,975,000	462,145	2,539,968
Series 2001 - Revenue	7/18/01	2021	3.500% - 5.125%	2,755,000	123,632	1,973,475
Series 2005A - Refunding	8/2/05	2021	3.000% - 5.000%	42,955,000	2,984,633	40,258,043
Hospital						
Series 2005A - Revenue Refunding	7/14/05	2018	4.500% - 5.000%	30,480,000	3,294,715	32,254,759
Series 2006A - Revenue Refunding	10/26/06	2032	4.000% - 5.250%	77,145,000	114,418	82,016,717
Series 2008 - Revenue Refunding	12/1/08	2031	Variable	20,640,000	520,000	20,640,000
Research Facilities						
Series 2004A - Revenue	6/30/04	2019	3.000% - 4.700%	9,685,000	577,381	7,013,623
Series 2005A - Revenue	2/15/05	2025	3.000% - 5.000%	5,515,000	220,089	4,846,011
Series 2005B - Refunding	6/07/05	2020	3.000% - 5.000%	20,130,000	1,542,733	15,266,710
Series 2008A - Revenue Refunding	10/7/08	2022	3.250% - 5.000%	9,360,000	551,894	9,054,032
Certificates of Participation						
Series 2007	4/3/07	2027	4.000% - 5.500%	42,450,000	790,563	40,868,048
Total					\$ 12,721,380	\$ 320,020,688

(a) Includes unamortized premiums and losses on refunding.

Figure 8.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	\$ 289,485,724	\$ 30,201,709	\$ 40,534,793	\$ 279,152,640	\$ 11,930,817
Certificates of participation	41,589,777		721,729	40,868,048	790,563
Capital leases payable	50,470,755	8,080,684	12,785,637	45,765,802	12,223,980
Notes and contracts payable	15,214,041	494,885	1,284,941	14,423,985	1,420,283
Total long-term debt	396,760,297	38,777,278	55,327,100	380,210,475	26,365,643
Compensated absences	44,067,584	35,292,298	31,632,827	47,727,055	4,938,707
Deposits & other liabilities	135,791,823	83,610,131	141,857,446	77,544,508	68,052,364
Total long-term liabilities	\$ 576,619,704	\$ 157,679,707	\$ 228,817,373	\$ 505,482,038	\$ 99,356,714

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. 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, 2009, is \$39,115,000.

In addition, the University issued two refunding bond series during the fiscal year. The first series was the Research Facilities Revenue Refunding Bonds Series 2008A issued on October 7, 2008, in the amount of \$9,360,000 for the purpose of refunding all of the Research Facilities Revenue Bonds Series 2007A. This refunding resulted in a reduction of the University's aggregate debt service payments of approximately \$425,000 over the next thirteen years and a present value economic gain of approximately \$396,000. The second series was the Hospital Revenue Refunding Bonds Series 2008 issued on December 1, 2008, in the amount of \$20,640,000 for the purpose of refunding all of the Hospital Revenue Refunding Bonds Series 2006B. This refunding resulted in a reduction of the University's aggregate debt service payments of approximately \$18,567,000 over the next twenty-three years and a present value economic gain of approximately \$14,975,000.

17. FUNCTIONAL CLASSIFICATION OF EXPENSES

Figure 9 presents, in thousands of dollars, operating expenses by functional classification and natural classification for the year ended June 30, 2009:

18. PLEDGED BOND REVENUE

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 net revenue pledged by the following activities for the retirement of outstanding bonds payable.

Auxiliary Enterprises – is comprised of specific auxiliary enterprises, namely: University Campus Store, Housing and Residential Education, University Student Apartments, Commuter Services, Jon M. Huntsman Center, Rice-Eccles Stadium, and the A. Ray Olpin University Union Building. These auxiliaries provide on-campus services for the benefit of students, faculty, staff and visitors. 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.

Figure 9.

Function	Compensation and Benefits	Supplies and Services	Utilities	Scholarships & Fellowships	Depreciation & Amortization	Component Units	Total
Instruction	\$ 256,562	\$ 31,751	\$ 1,904	\$28,356			\$ 318,573
Research	155,829	77,663	1,585	2,723			237,800
Public service	361,313	75,460	18,140	1,752			456,665
Academic support	59,201	25,146	682	140			85,169
Student services	15,354	5,731	239	316			21,640
Institutional support	35,572	(6,751)	4,053	493			33,367
O & M of plant	21,872	19,817	18,868	3			60,560
Student aid	2,769	25,160	13	(10,058)			17,884
Other	30,075	(53,443)	5,507	2,261	\$105,663		90,063
Hospital	398,468	379,111	10,014				787,593
Component Units	2,688				12,812	\$328,196	343,696
Total	\$1,339,703	\$579,645	\$61,005	\$25,986	\$118,475	\$328,196	\$2,453,010

University of Utah Hospitals & Clinics – 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.

Figure 10 presents the net revenue pledged to the applicable bond system and the principal paid and interest expense for the year ended June 30, 2009.

19. COMMITMENTS AND CONTINGENCIES

Under the terms of various limited partnership agreements approved by the Board of Trustees or by University officers, the University is obligated to make periodic payments for advance commitments to venture capital and private equity investments. As of June 30, 2009, the University had committed, but not paid, a total of \$19,323,652 in funding for these alternative investments.

20. SUBSEQUENT EVENTS

On August 26, 2009, the University issued \$19,080,000 of Research Facilities Revenue Bonds, Series 2009A and \$27,730,000 Taxable Research Facilities Revenue Bonds, Series 2009B (Issuer Subsidy – Build America Bonds). Principal on the Series 2009A bonds is due an-

nually commencing April 1, 2010 through April 1, 2019 and principal on the Series 2009B bonds is due annually commencing April 1, 2020 through April 1, 2029. Bond interest is due semiannually commencing April 1, 2010 at rates ranging from 4.00% to 6.279%. Each interest payment on the Series 2009B bonds will receive a subsidy from the Federal Government with funds provided by the American Recovery and Reinvestment Act totaling \$9,051,083 over the life of the bonds. Proceeds from these bonds will be used to finance certain infrastructure improvements including a central chilled water plant. The infrastructure improvements are necessary for planned construction for interdisciplinary research, clinical operations and improving inefficient cooling systems in some existing buildings.

On September 1, 2009, the University entered into a sublease agreement with the State of Utah for Phase II-B of the Huntsman Cancer Hospital which requires semi-annual lease payments beginning May 2010 through May 2030. Fiscal year payments range from \$2.6 million in fiscal year 2010 to \$12.4 million in fiscal year 2030. Total lease payments over the life of the lease amount to \$158.9 million.

Figure 10.

	Bond Systems		
	Auxiliary & Campus Facilities	Hospital	Research Facilities
Revenue			
Operating revenue	\$ 69,771,817	\$ 854,364,793	\$ 66,889,483
Nonoperating revenue	6,202,323	11,089,601	
Total revenue	75,974,140	865,454,394	66,889,483
Expenses			
Operating expenses	57,845,557	787,592,877	53,829,824
Total expenses	57,845,557	787,592,877	53,829,824
Net pledged revenue	\$ 18,128,583	\$ 77,861,517	\$ 13,059,659
Principal paid and interest expense			
	\$ 11,443,867	\$ 29,407,541	\$ 13,997,265

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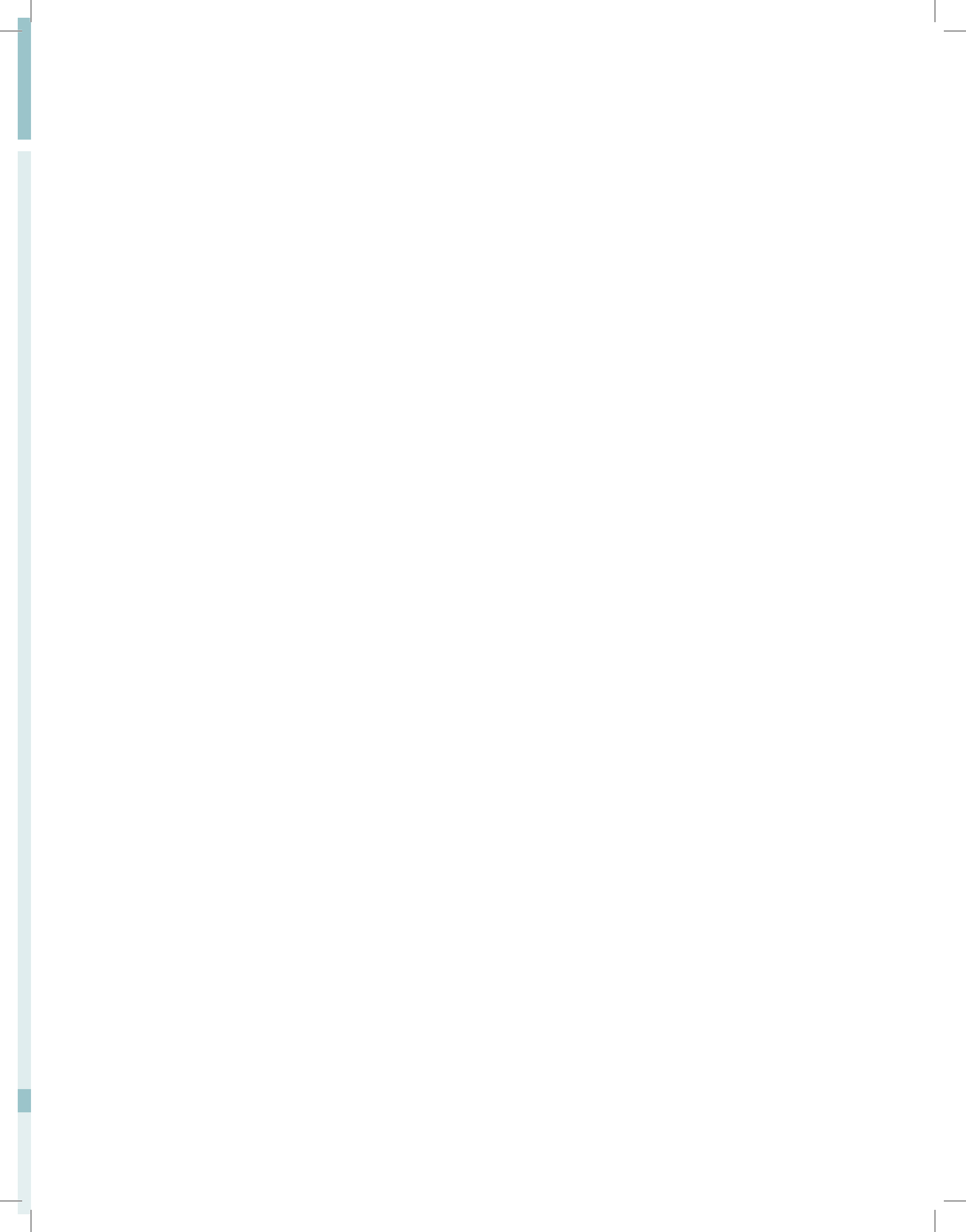
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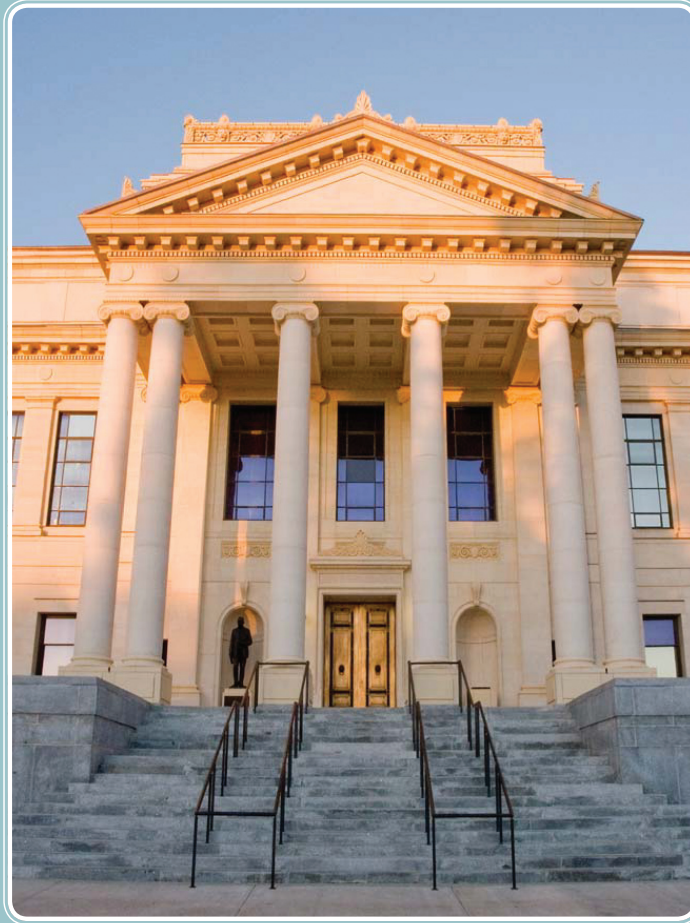
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