2010 Annual Financial Report
The University of Utah
A Component Unit of the State of Utah

THE UNIVERSITY OF UTAH

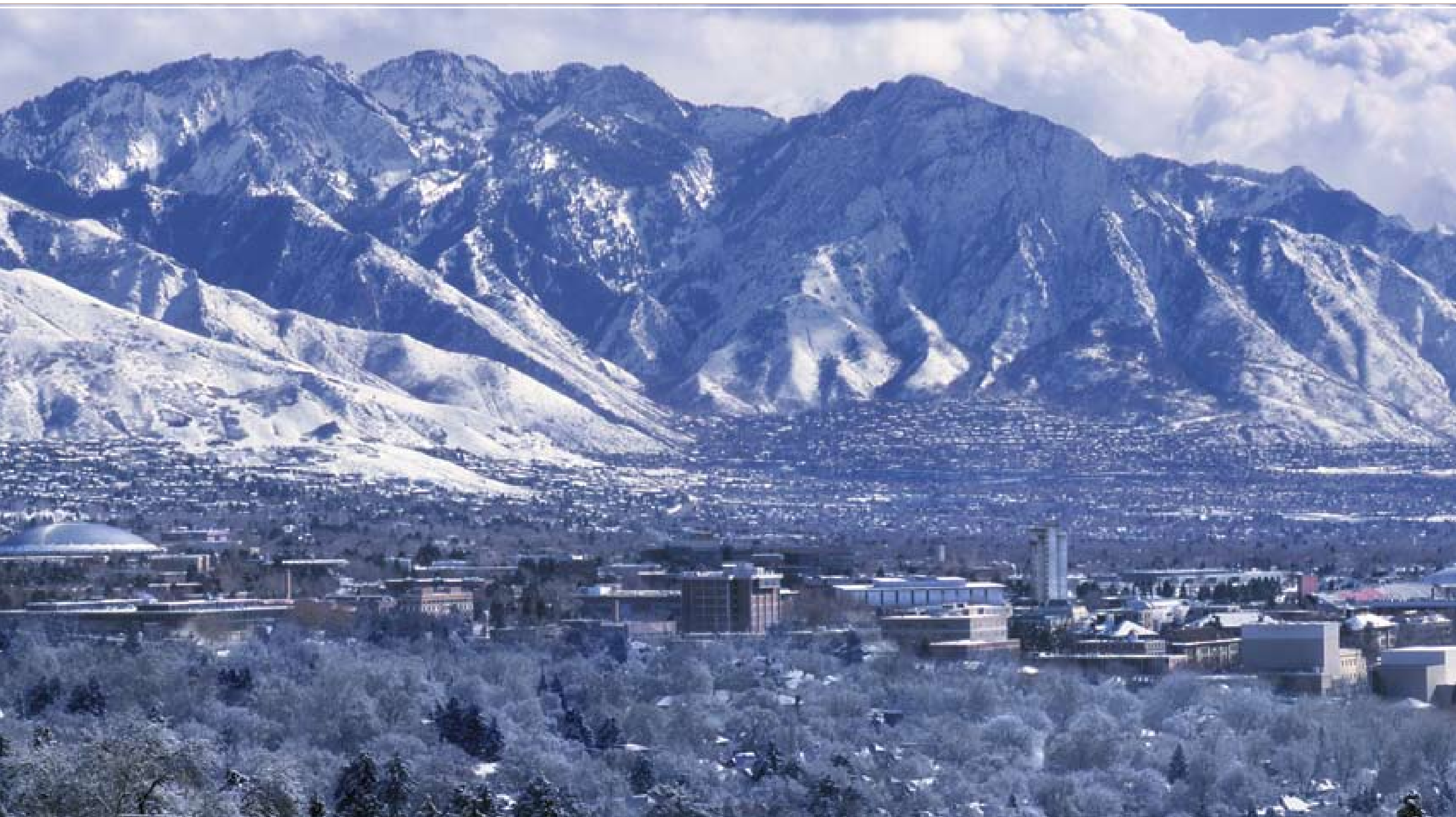

TABLE OF CONTENTS

Message from President Michael K. Young

This has been an extraordinary year of growth and achievement for the University of Utah. By almost every measure we are on a remarkable upward trajectory. Here are some exciting developments:

- **Students**. Our students continue to honor us with not only what they bring to the University but with what they accomplish while here—in the classroom, through service learning, in student government and leadership programs, and through outstanding academic and entrepreneurial achievement.
- The rising caliber of our student body is a visible measure of our upward momentum. Fully 10% of the student body can now qualify as Honors College students. Over the past five years, the number of students graduating with the Honors Degree has doubled, and the number of students receiving the Honors Certificate has tripled. Overall, graduate student enrollment has increased by 11%.
- **Research**. Research funding, projects, discoveries, and commercialization are bigger than ever before. Research and related funding for the past fiscal year jumped 27% to over $450 million as University faculty members successfully compete with the best universities in the country. Years of "priming the pump" are past as we now marvel at a gushing well of world class research. As examples:
  - University biologist Villu Maricq will receive $3.75 million to study memory and learning in action, thanks to a National Institutes of Health Director's Pioneer Award meant to encourage promising but risky research. This will be a five-year project that will involve studying how nervous systems process information, learn and remember.
  - Scientists from U's Department of Orthopaedics and the Worcester Polytechnic Institute plan to use a $3 million Department of Defense appropriation to design an "intelligent" prosthetic implant. The improved implants will make artificial limbs comfortable to wear and infection-free by attaching internally to the skeleton and employing a skin seal to prevent bacteria from entering the attachment site.

The University's Technology Commercialization Office (TCO) set another record, bringing in over $3 million in new revenue. In the 2010 fiscal year, TCO started 19 new technology companies, bringing the total number of companies created in the past five years to 102. Companies created through the University's commercialization efforts have raised almost $250 million in venture and grant funding, creating over 420 high-paying jobs.

- **Health Care**. We continue to see unprecedented growth at the University in personalized medicine and quality of care. According to one of the most rigorous hospital rankings in the world, the University of Utah Health Care system ranks #1 in the United States. The University Health System Consortium's 2010 Quality and Accountability study compared 98 of the nation's elite academic medical centers and concluded the University of Utah is unsurpassed. As Hospital CEO David Entwistle has stated, this #1 ranking "says to the citizens of Utah that you can get the same care here as you can get at the

Mayos and the Hopkins and the Brigham and Women's of the world." University Health Care is a superb collection of people and organizations including University Hospital, Huntsman Cancer Hospital, University Orthopaedic Center, University Neuropsychiatric Institute, 10 community clinics, and several specialty centers. Consider particularly the Moran Eye Center specialty center, which has grown into one of the top ophthalmic surgical and training centers in North America. Moran surgeons perform more than 7,000 surgical procedures each year. The Center has more than 50 faculty members and over 50 Ph.D. researchers, including one of the top retinal research teams in the world.

- **Infrastructure**. Extraordinary growth at the University brings a need to improve and extend our physical infrastructure. With our 25-year campus master plan, we hope to transform this 1500-acre, 30,000 student institution into an integrated, walkable, sustainable, energized, and even more lively campus. One look out the window of practically any building on campus reveals the aggressive nature of this project. There are currently 15 major projects that either were just completed, are under construction, or in design. These projects have a collective construction value of over $725 million, of which $491 million (81.5%) is funded from non-state sources.

- **Sustainability**. Through thoughtful programs and new initiatives, the University is quickly becoming a true beacon of environmental responsibility. We are a signatory to the American College and University President's Climate Commitment, which includes our strong commitment to creating a formal Carbon Neutrality Plan. Under the leadership of Myron Willson, Director of our Office of Sustainability, we recently unveiled our "Energy and Environmental Stewardship Initiative: 2010 Climate Action Plan." This document is the result of the hard work of 80-plus volunteer faculty, students and staff over the last two years, and includes a comprehensive list of strategies for reducing greenhouse gas emissions and saving the University money. Our actions have not gone unnoticed—the University of Utah ranks #4 in the nation on its list of college and university "green power partners." That's a jump of six spots in just one year.

- **Athletics**. The University of Utah's invitation to join what will soon be the PAC-12 athletic conference is an exciting development for our community and state. I share the enthusiasm of our students, alumni, and fans everywhere. I'm also excited that this presents wonderful opportunities as we become part of a bigger, more academically powerful collection of institutions. We will now be more closely allied with other exceptional, like-minded research universities and look to capitalize on opportunities this will present.

It is my pleasure to present this annual financial report and once again recognize the vision, generosity, and tireless efforts of this excellent community of students, faculty, administrators, staff, alumni, and friends. The University of Utah is a truly extraordinary enterprise. In this critical, perhaps historic, time for the University change in many forms is either upon us or right around the corner. We accept the challenges of the present, embrace change, and look to grow.

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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, 2010, 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 24% ($946,276,000) of total assets and 46% ($1,302,991,000) 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 2009 financial statements and, in our report dated November 12, 2009, 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, 2010, 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 18, 2010 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.

Auston G. Johnson, CPA
Utah State Auditor
November 18, 2010

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) and its component units for the year ended June 30, 2010, with selected comparative information for prior fiscal years. This discussion has been prepared by management and should be read in conjunction with the Financial Statements and the Notes to the Financial Statements, which follow this section.

The University of Utah's Financial Statements include revenues, expenses, assets, liabilities, and net assets for two component units – the University of Utah Research Foundation (UURF) and ARUP Laboratories, Inc. (ARUP) – as well as the balances and activities of the University itself. UURF specializes in the transfer of patented technology to business entities as well as the leasing and administration of Research Park (a research park located on land owned by the University). ARUP is a national clinical and anatomic pathology reference laboratory. More information about these entities and their inclusion in the financial statements may be found in Note 1 – *Summary of Significant Accounting Policies – Reporting Entity.*

ABOUT THE UNIVERSITY OF UTAH

The University of Utah is the state's oldest and largest institution of higher education and is a major research university. The University offers over 100 undergraduate and more than 90 graduate degree programs to over 30,000 students. With more than 23,000 employees, it is one of the state's largest employers.

The Center for World-Class Universities of Shanghai Jiao Tong University ranks the University of Utah number 80 in the 2009 Academic Ranking of World Universities (ARWU.) Since the ARWU was first released in June 2003, the University of Utah has been among the top 100 universities in the world, the only school in Utah so recognized. The ARWU rankings identify the leading 500 universities around the world and are widely referenced by the global university community. The ARWU also places the University among the best programs in the world for life sciences (top 50); clinical medicine and pharmacy, social sciences, mathematics, chemistry, and economics and business (top 75); and engineering/technology and computer sciences (top 100).

Research and related extramural awards jumped 27% to \$450.6 million during the fiscal year with most of the increase provided by economic stimulus money from the federal government. Of the increase, \$82.2 million was awarded as a result of the American Reinvestment and Recovery Act (ARRA) of 2009. The University has more than 200 active research projects funded through ARRA. Of the 846 National Institutes of Health Challenge Grants (also funded through ARRA), the University received 10 awards – as did MIT, Vanderbilt, and University of California San Francisco. Harvard University and the University of Chicago received nine and seven awards, respectively. The University's undergraduates benefit from this increase in the research enterprise. From 2004 through 2008, faculty supervised undergraduate research opportunities increased from 96 to 249 per year.

The University was especially pleased to learn that its research in genetics, health sciences, and business creations led, in part, to Salt Lake City being ranked fifth in *Kiplinger Magazine's* "Best Cities of 2010: For the Next Decade".

University Health Care (UHC) is the Intermountain West's only academic health-care system, combining excellence in patient care, medical research, and teaching to provide leading-edge medicine in a caring and personal setting. As part of that system, University Hospitals & Clinics (UUHC) offers services in more than 120 specialties and serves as the clinical training ground for nearly 2,000 students and more than 600 medical residents, fellows, and interns. Throughout its existence, the UHC has been recognized as a leading regional teaching institution and patient care facility for the entire Intermountain West. The Hospital achieved the number one ranking in the University Health System Consortium's 2010 *Quality and Accountability Study*. The annual study compares 98 of the nation's top academic medical centers and ranks them based on core quality measures, patient safety indicators, mortality rates, re-admission rates and patient satisfactions scores. The Hospital has had a steady rise in the Consortium's annual assessment over the last three years and in 2010 moved from a ranking of 31 to a five-star ranking and the number one position.

UHC is especially proud of the following:

- Patients: UUHC logged 26,223 admissions, 824,437 outpatient visits, and 37,197 emergency department visits in the fiscal year 2010.
- Specialties: A tertiary care referral center for the Intermountain West, UHC is known for programs in orthopedics, stroke, ophthalmology, cancer, newborn intensive care, radiology, fertility, cardiology, genetic-related diseases, and organ transplant. The Hospital is a nationally verified Level I trauma center.
- The Burn Trauma Intensive Care Unit, the only burn treatment facility in the region, has more than 6,800 clinic visits annually and admits approximately 300 critically ill burn patients of all ages from Utah and the Intermountain West.
- The AirMed patient-transport service (four helicopters and two fixed-wing airplanes) completes some 3,500 missions yearly in Utah and neighboring states.

The financial statements that follow provide additional information on the resources available to the University to accomplish the many exciting things described above. For more information about the University and its programs and initiatives, please visit www.utah.edu.

OVERVIEW AND ANALYSIS OF THE FINANCIAL STATEMENTS

The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. Three financial statements are presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The Notes to the Financial Statements are an integral part of the statements and provide additional details and information important to an understanding of the University's financial position and results of operations.

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets, liabilities, and net assets of the University. Net assets are one indicator of the current financial condition of the University. Assets and liabilities are generally measured using current values except for capital assets, which are stated at historical cost less accumulated depreciation.

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations for the fiscal year. The net difference between revenues and expenses is the increase (or decrease) in net assets for the year. The change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year

The Statement of Cash Flows provides additional information about the University's financial results by reporting the major sources and uses of cash by type of activity – as well as providing a reconciliation to net operating loss.

STATEMENT OF NET ASSETS

A condensed statement of net assets for the past five fiscal years is shown in *Figure 1* on page 9.

Total assets increased 9.6% from the prior year and 43.3% over the five year period – primarily due to increases in various operating revenues as well as increases in gifts and investment income. For the five year period, total net assets increased 51.1% while total liabilities only increased 20.7%. This overall improvement in financial position reflects the University's prudent management of its resources – despite recent turmoil in the financial markets.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The results of the University's operations for the fiscal year are shown in the Statement of Revenues, Expenses, and Changes in Net Assets. A condensed statement of revenues, expenses, and changes in net assets for the past five fiscal years is shown in *Figure 2*[1] on page 10.

Revenues from tuition and fees increased 18.9% from the prior year – and 41.3% over the five year period. This consistently upward trend is reflective of the students' increased contribution toward the University's budget as state appropriations have remained essentially flat (decreasing 7.5% from the prior year and decreasing 1.2% over the five year period). State stimulus dollars funded by ARRA are not included in these figures.

Patient services revenues increased modestly (2.3%) from the prior year despite the economy, yet have increased 33.0% over the five year period. This consistent growth reflects the value the intermountain region places on the quality of University's healthcare system.

Sales and services revenue increased from the prior year (8.7%) and also maintained a consistent upward trend for the five year period – increasing 49.3%. While some of the increase is attributable to growth in the Hospital's cafeteria operations, the largest contributor to the increase is growth in ARUP's revenues over the period.

With contributions from these significant sources, total operating revenues have increased 7.8% and 32.5% from the prior year and for the five year period, respectively.

Operating expenses, while generally constrained, have increased as well; 5.3% over the prior year and 33.7% for the five year period. With compensation and benefits representing 54.7% of total operating expenses for the current fiscal year, any change in that expense category, even if modest, can have significant impacts on total operating expenses. While salaries have generally been held flat for the past three years, recruitment and retention of the University's excellent professors, researchers, and physicians requires the payment of competitive salaries. More detail on expenses appears in *Figure 3* on page 11.

Figure 1

Condensed Statement of Net Assets - as of June 30 (in thousands)	**2010**	**2009**	**2008**	**2007**	**2006**
Current assets	$1,149,117	$1,218,554	$1,279,049	$1,254,949	$1,094,249
Noncurrent assets					
Other noncurrent assets	1,151,039	834,568	830,188	771,911	1,137,791
Capital assets, net	1,681,491	1,578,878	1,348,040	1,248,432	545,463
Total Assets	3,981,647	3,632,000	3,457,277	3,275,292	2,777,503
Current liabilities	353,846	361,738	347,254	301,528	270,175
Noncurrent liabilities	496,329	406,125	422,982	437,605	434,305
Total Liabilities	850,175	767,863	770,236	739,133	704,480
Invested in capital assets, net of related debt	1,289,089	1,202,270	993,443	927,224	828,988
Restricted, nonexpendable	342,260	308,513	351,619	361,955	305,034
Restricted, expendable	543,482	512,701	528,493	552,205	358,729
Unrestricted	956,641	840,653	813,486	694,775	580,272
Total Net Assets	$3,131,472	$2,864,137	$2,687,041	$2,536,159	$2,073,023

The University's net assets grew by $267.3 million in FY2010, which is a significant improvement in growth from the previous two fiscal years. Donations have remained strong as a result of the University's capital campaign (*"Together We Reach")* – which began July of 2005 – and have had a positive contribution to this improvement. As financial markets strengthened (after the 2008 "crash"), unrealized gains have similarly resulted in bottom line improvements. In the current fiscal year, $20.7 million is included in other nonoperating revenue to accrue an IRS refund on medical resident employment taxes paid by the University in prior fiscal years. The IRS publicly announced prior to the end of the fiscal year that claims previously made would be honored – thus ending years of litigation on the part of medical schools across the United States.

As a public university, the University of Utah receives funds from a variety of sources in support of its operations. While the Statement of Revenues, Expenses, and Changes in Net Assets classifies certain funds as "nonoperating" for the purposes of financial reporting, such funds do, in fact, support the University's operations by covering costs such as salaries and benefits, travel, research expenses, and student aid.

Figure 2

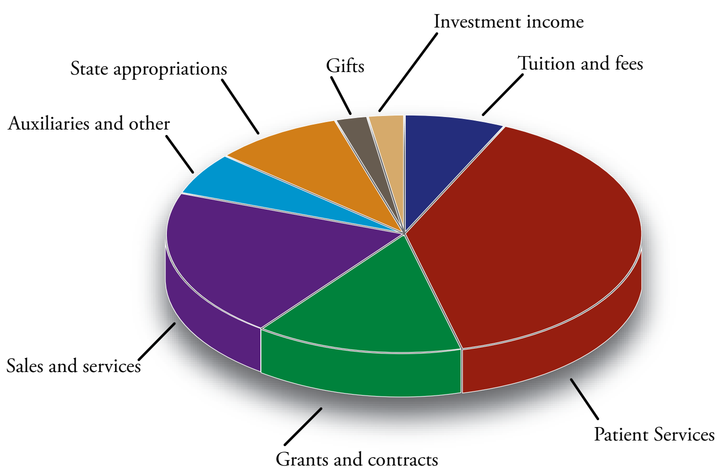
Condensed Statement of Revenues, Expenses, and Changes in Net Assets - for the years ended June 30 (in thousands)	**2010**	**2009**	**2008**	**2007**	**2006**
Operating revenues					
Tuition and fees, net	$ 201,300	$ 169,351	$ 160,915	$ 152,820	$ 142,432
Patient services, net	1,092,663	1,067,747	937,047	883,032	821,704
Grants and contracts	343,842	307,574	280,815	298,986	300,744
Sales and services	571,859	526,323	472,607	420,813	382,902
Auxiliary and other	163,190	129,933	145,724	140,887	142,549
Total operating revenues	2,372,854	2,200,928	1,997,108	1,896,538	1,790,331
Operating expenses	2,584,244	2,453,010	2,277,040	2,092,386	1,932,667
Operating loss	(211,390)	(252,082)	(279,932)	(195,848)	(142,336)
Nonoperating revenues					
State appropriations	246,631	266,761	294,907	269,700	249,608
Gifts	64,826	65,037	74,449	82,094	26,248
Investment income (loss)	62,661	(45,153)	22,412	128,871	66,620
Other net nonoperating revenue (expense)	40,813	2,016	(15,284)	(30,880)	(33,599)
Total nonoperating revenues	414,931	288,661	376,484	449,785	308,877
Income before capital and permanent endowment additions	203,541	36,579	96,552	253,937	166,541
Capital and permanent endowment additions	63,794	140,517	73,004	209,199	43,777
Increase in net assets	267,335	177,096	169,556	463,136	210,318
Net assets - beginning of year	2,864,137	2,687,041	2,517,485	2,073,023	1,862,705
Net assets - end of year	$3,131,472	$2,864,137	$2,687,041	$2,536,159	$2,073,023

[1] As reported in each year's audited financial statements. Effects, if any, of subsequent restatements are not included.

Figure 3

Total Expenses	**2010**	**2009**	**2008**	**2007**	**2006**
Operating expenses					
Compensation and benefits	$1,413,344	$1,339,703	$1,226,252	$1,133,059	$1,043,826
Component units	347,731	328,196	287,603	250,279	227,340
Supplies	292,367	277,509	252,785	242,070	228,806
Depreciation and amortization	131,965	118,475	110,618	104,982	97,475
Other	398,837	389,127	399,782	361,996	335,220
Total operating expenses	2,584,244	2,453,010	2,277,040	2,092,386	1,932,667
Nonoperating expenses					
Interest and other	35,794	32,481	33,765	30,880	33,599
Total expenses	$2,620,038	$2,485,491	$2,310,805	$2,123,266	$1,966,266

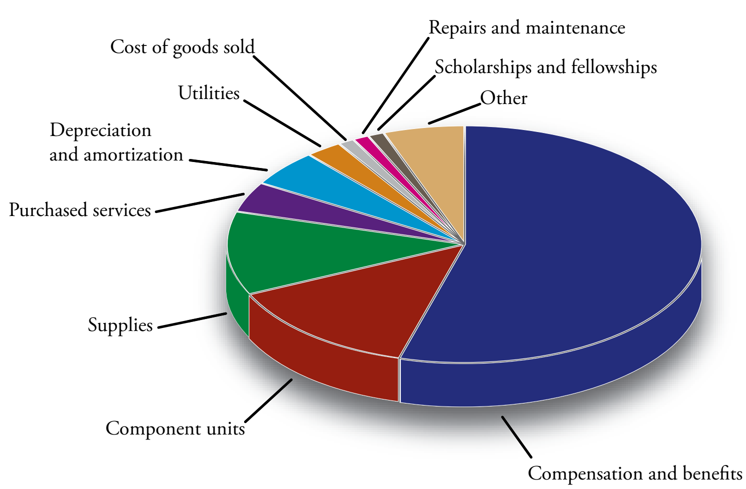
The graph below shows the various types of funding available (excluding the accrued IRS refund) to support operating expenses:



Sources of Revenue in Support of Operations
Fiscal Year Ending June 30, 2010

Tuition and fees	$ 201,300
Patient Services	1,092,663
Grants and contracts	399,745
Sales and services	571,859
Auxiliaries and other	168,056
State appropriations	246,631
Gifts	64,826
Investment income	62,661

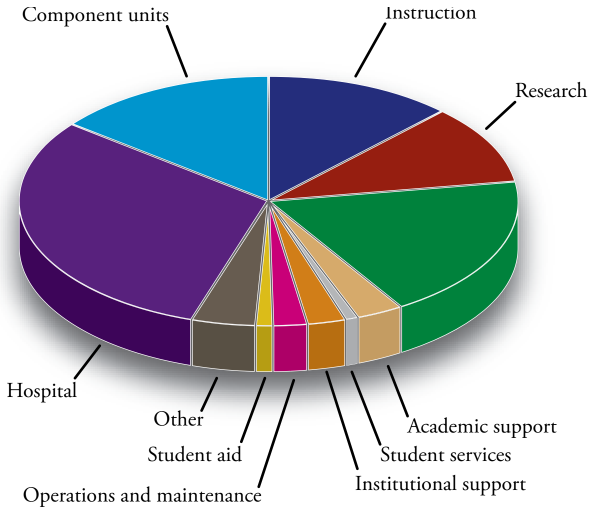
A graphical presentation of the University's operating expenses appears below:



Operating Expenses
For the Year Ended June 30, 2010

Compensation and benefits	$1,413,344
Component units	347,731
Supplies	292,367
Purchased services	110,744
Depreciation and amortization	131,965
Utilities	61,331
Cost of goods sold	31,777
Repairs and maintenance	29,733
Scholarships and fellowships	25,086
Other	140,166

Note 17 provides more information regarding the classification of operating expenses by "function" (or purpose) as an alternative view to that presented on the face of the financial statements. A graphical presentation of the breakdown of operating expenses by functional classification follows:



Functional Classification of Operating Expenses
For the Year Ended June 30, 2010

Instruction	$320,313
Research	264,222
Public service	480,291
Academic support	81,483
Student services	21,524
Institutional support	62,329
Operations and maintenance	59,466
Student aid	25,728
Other	109,705
Hospital	792,965
Component units	366,218

STATEMENT OF CASH FLOWS

A condensed version of the Statement of Cash Flows is shown below in *figure 4.*

Cash flows from operations benefitted from increased cash receipts from all areas – including tuition and fees, patient services, grants and contacts, and auxiliaries. As mentioned in previous sections, all of these areas have demonstrated significant and consistent upward trends over the past five years. Payments to suppliers and employees were also up, but not as significantly. As a result, the net cash used by operating activities decreased 36.4% over fiscal year 2009.

Net cash used by capital and related financing activities was substantially less than the prior year and is primarily due to the issuance of bonds for construction.

Overall, cash at the end of the year had increased 70.7% from the prior year, but was down 19.8% for the five year period. The decline from 2006 though, should not be a cause for concern as the University actively manages its investment portfolio by balancing returns and liquidity. As a result, cash and cash equivalents are held to the minimum needed to support operations with any excess invested with varying maturity dates.

CAPITAL AND DEBT ACTIVITIES

During the fiscal year, a number of capital and debt financing activities were approved by the University's Board of Trustees including the following:

- UHC entered into an $80 million lease for land, facilities, and equipment to open a 180,000 square foot multi-specialty clinic (including an emergency room) in the Daybreak area of south Salt Lake Valley.

Figure 4

Condensed Statement of Cash Flows - for the years ended June 30 (in thousands)	**2010**	**2009**	**2008**	**2007**	**2006**
Cash flows from (to):					
Operating activities	$ (88,110)	$ (138,590)	$ (222,867)	$ (93,444)	$ (34,711)
Noncapital financing activities	385,873	375,423	395,669	334,012	272,590
Capital and related financing activities	(103,936)	(283,249)	(211,574)	(43,766)	(50,763)
Investing activities	108	(260,201)	(67,662)	(93,576)	(209,201)
Net increase (decrease) in cash	193,935	(306,617)	(106,434)	103,226	(22,085)
Cash - beginning of year	274,128	580,745	687,179	583,953	606,038
Cash - end of year	$468,063	$ 274,128	$ 580,745	$687,179	$583,953

- Several key construction projects were completed including a new athletic track; the east chiller plant expansion; the new Sutton Building; the Alex Smith Conditioning Room; a remodel of the College of Nursing; and the Hospital Patient Care Pavilion. Ongoing projects include the Red Butte Garden Visitors Center addition; north central chiller plant; Huntsman Cancer Hospital expansion; Skaggs Pharmacy addition; the new Utah Museum of Natural History; the USTAR building; and the David Eccles School of Business complex. All of the current projects will be completed over the next several years.

- Research Facilities Revenue Bonds Series 2009A and 2009B were issued in the amounts of $19,080,000 and $27,730,000, respectively. The 2009B bonds were taxable bonds issued under the Build America Bond program. This ARRA funded program provides an interest subsidy to the bond issuer. Both series funded necessary improvements in campus infrastructure to support the development of research facilities.

- Hospital Revenue Bonds Series 2009A and 2009B were issued in the amounts of $9,135,000 and $41,785,000, respectively. These bonds were issued to fund the expansion of the University Neuropsychiatric Institute. The 2009B bonds are Build America Bonds.

- Auxiliary and Campus Facilities Revenue and Refunding Bonds Series 2010A in the amount of $23,515,000 were issued which fully or partially refunded Series 1998A, 1999A, and 2001.

- A Hospital bond issue was approved, but not issued until August 2010, to acquire the Orthopaedics Building and the Ambassador Building from private entities for use by the Hospital.

OUTLOOK FOR THE COMING FISCAL YEAR

The University's enrollment for 2009-2010 was up nearly 4% from the prior fall semester. The largest increase was in the number of graduate students – up 6.7%. Enrollment at the undergraduate level is dependent on two factors, pool and participation, that are both heavily influenced by factors within the state. 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 three years as K-8 students move into and through high school in record numbers.

For at least the short term, as the state works its way out of the recession, participation rates are likely to be relatively high. Unemployment in Utah was 7.1% at the end of February 2010 (as compared to 9.7% nationally) and has contributed to the increase in enrollment for all state colleges and universities. Enrollment for Fall 2010 continues that trend and is up 5.2% partly in response to continued stresses in the economy.

During the 2010 legislative session, the University's recurring budget for 2010-2011 was held essentially at the same levels as 2009-2010 even with the upcoming expiration of most of the ARRA state stimulus funding. This was welcome news to the University in terms of outlook for the coming fiscal year.

UUHC and ARUP continue to be recognized as leaders in their respective fields. The financial position for each remains strong and is expected to remain so.

The capital campaign has raised $883 million through the end of August 2010. Support for research ($293 million), facilities ($163 million), and public programs ($125 million) has been outstanding. Despite the stress of a troubled economy, the University benefits from the continued generosity of its donors and supporters.

The University continues to exercise a conservative approach to the issuance of debt. However, with the need for expanded research, patient care, and student housing, comes the need to issue debt to support construction. Within the short-term, 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.

With the turmoil of 2008-2009 apparently behind us, the University has seen the market value of the endowment's underlying assets regain their strength and relative stability. The University's investment and spending approaches reflect the understanding that endowment assets are perpetual funds established by donors over the history of the institution. These funds are managed so as to be available to mission-critical programs and initiatives – now and into the future. 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. However, we believe our portfolio will provide solid financial footing for the University's endowments over the long term.

Recently, the University was invited to join the PAC-10 athletic conference. This extraordinary feat resulted primarily from the remarkable success of the University's football team. Season ticket sales and single game ticket sales are expected to increase as a result. In addition, the value of various sponsorships will also increase.

Overall, the University is in a sound financial position. The institution has strong strategic leadership and prudent financial management that should guide us through what we anticipate will be additional budgetary challenges.

FINANCIAL STATEMENTS

THE UNIVERSITY OF UTAH | Statement of Net Assets

(in thousands of dollars)

As of June 30

	2010	[For Comparison Only] 2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2 & 4)	$ 369,362	$ 255,979
Short-term investments (Notes 2 & 4)	404,517	600,854
Receivables, net (Note 5)	317,895	303,510
Inventory (Note 1)	39,149	40,019
Other assets (Note 6)	18,194	18,192
Total current assets	1,149,117	1,218,554
Noncurrent Assets		
Restricted cash and cash equivalents (Notes 2 & 4)	98,701	18,149
Restricted short-term investments (Notes 2 & 4)		49,216
Investments (Notes 3 & 4)	568,765	343,965
Restricted investments (Notes 3 & 4)	332,900	249,539
Restricted receivables, net (Note 5)	85,421	103,931
Donated property held for sale	1,809	1,809
Other assets (Note 6)	63,443	67,959
Capital assets, net (Note 7)	1,681,491	1,578,878
Total noncurrent assets	2,832,530	2,413,446
Total assets	3,981,647	3,632,000
LIABILITIES		
Current Liabilities		
Accounts payable		
to the State of Utah	8,009	18,555
to Others	81,066	85,567
Accrued payroll	89,221	91,268
Compensated absences & early retirement benefits (Note 1)	4,696	4,939
Deferred revenue (Note 9)	66,823	66,991
Deposits & other liabilities (Notes 11 & 15)	70,564	68,052
Bonds, notes and contracts payable (Notes 14, 15, & 16)	33,467	26,366
Total current liabilities	353,846	361,738
Noncurrent Liabilities		
Compensated absences & early retirement benefits (Note 1)	45,439	42,788
Deposits & other liabilities (Notes 11 & 15)	12,900	9,492
Bonds, notes and contracts payable (Notes 14, 15, & 16)	437,990	353,845
Total noncurrent liabilities	496,329	406,125
Total liabilities	850,175	767,863
NET ASSETS		
Invested in capital assets, net of related debt	1,289,089	1,202,270
Restricted for		
Nonexpendable		
Instruction	109,996	95,540
Research	33,453	30,121
Public service	51,634	46,017
Academic support	31,394	29,015
Scholarships	109,260	102,468
Other	6,523	5,352
Expendable		
Research	156,299	123,784
Public service	91,073	85,756
Academic support	30,903	29,611
Institutional support	49,995	49,774
Scholarships	4,416	27,931
Loans	34,177	34,888
Debt service	6,987	
Capital additions	147,833	170,838
Other	21,799	18,050
Unrestricted	956,641	812,722
Total net assets	$ 3,131,472	$ 2,864,137

The accompanying notes are an integral part of these financial statements

(in thousands of dollars)

For the Year Ended June 30

	2010	[For Comparison Only] 2009
OPERATING REVENUES AND EXPENSES		
Revenues		
Tuition and fees, net (Note 1)	$ 201,300	$ 169,351
Patient services, net (Notes 1 & 13)	1,092,663	1,067,747
Federal grants and contracts	247,377	211,260
State and local grants and contracts	15,382	16,506
Nongovernmental grants and contracts	81,083	79,808
Sales and services, net (Note 1)	571,859	526,323
Auxiliary enterprises, net (Note 1)	83,288	83,710
Other operating revenues	79,902	46,223
Total operating revenues	2,372,854	2,200,928
Expenses		
Compensation and benefits	1,413,344	1,339,703
Component units	347,731	328,196
Supplies	292,367	277,509
Purchased services	110,744	101,322
Depreciation and amortization	131,965	118,475
Utilities	61,331	61,005
Cost of goods sold	31,777	34,270
Repairs and maintenance	29,733	37,854
Scholarships and fellowships	25,086	25,986
Other operating expenses	140,166	128,690
Total operating expenses	2,584,244	2,453,010
Operating loss	(211,390)	(252,082)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	246,631	266,761
Government grants	55,903	34,497
Gifts	64,826	65,037
Investment income (loss)	62,661	(45,153)
Interest	(19,956)	(18,117)
Other nonoperating revenues (expenses) (Note 5)	4,866	(14,364)
Total nonoperating revenues	414,931	288,661
Income before capital and permanent endowment additions	203,541	36,579
CAPITAL AND PERMANENT ENDOWMENT ADDITIONS		
Capital appropriations	21,654	83,243
Capital grants and gifts	28,242	41,419
Additions to permanent endowments	13,898	15,855
Total capital and permanent endowment additions	63,794	140,517
Increase in net assets	267,335	177,096
NET ASSETS		
Net assets - beginning of year	2,864,137	2,687,041
Net assets - end of year	$3,131,472	$ 2,864,137

(in thousands of dollars)

For the Year Ended June 30

	2010	[For Comparison Only] 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees	$ 201,054	$ 173,048
Receipts from patient services	1,073,795	1,071,092
Receipts from grants and contracts	344,908	297,995
Receipts from auxiliary and educational services	657,739	611,036
Collection of loans to students	5,837	4,765
Payments to suppliers	(1,023,512)	(950,502)
Payments for compensation and benefits	(1,411,393)	(1,338,303)
Payments for scholarships and fellowships	(25,086)	(25,986)
Loans issued to students	(5,882)	(4,500)
Other	94,430	22,765
Net cash used by operating activities	(88,110)	(138,590)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	246,631	266,761
Government grants	55,903	34,497
Gifts		
Endowment	13,880	15,905
Nonendowment	64,159	72,768
Other	5,300	(14,508)
Net cash provided by noncapital financing activities	385,873	375,423
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	126,513	30,202
Capital appropriations	13,671	24,302
Gifts	26,938	13,099
Purchase of capital assets	(195,218)	(277,646)
Principal paid on capital debt	(55,893)	(55,145)
Interest paid on capital debt	(19,947)	(18,061)
Net cash used by capital and related financing activities	(103,936)	(283,249)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,086,049	1,218,182
Receipt of interest and dividends on investments	26,341	36,657
Purchase of investments	(1,112,282)	(1,515,040)
Net cash provided (used) by investing activities	108	(260,201)
Net increase (decrease) in cash	193,935	(306,617)
Cash - beginning of year	274,128	580,745
Cash - ending of year	$ 468,063	$ 274,128

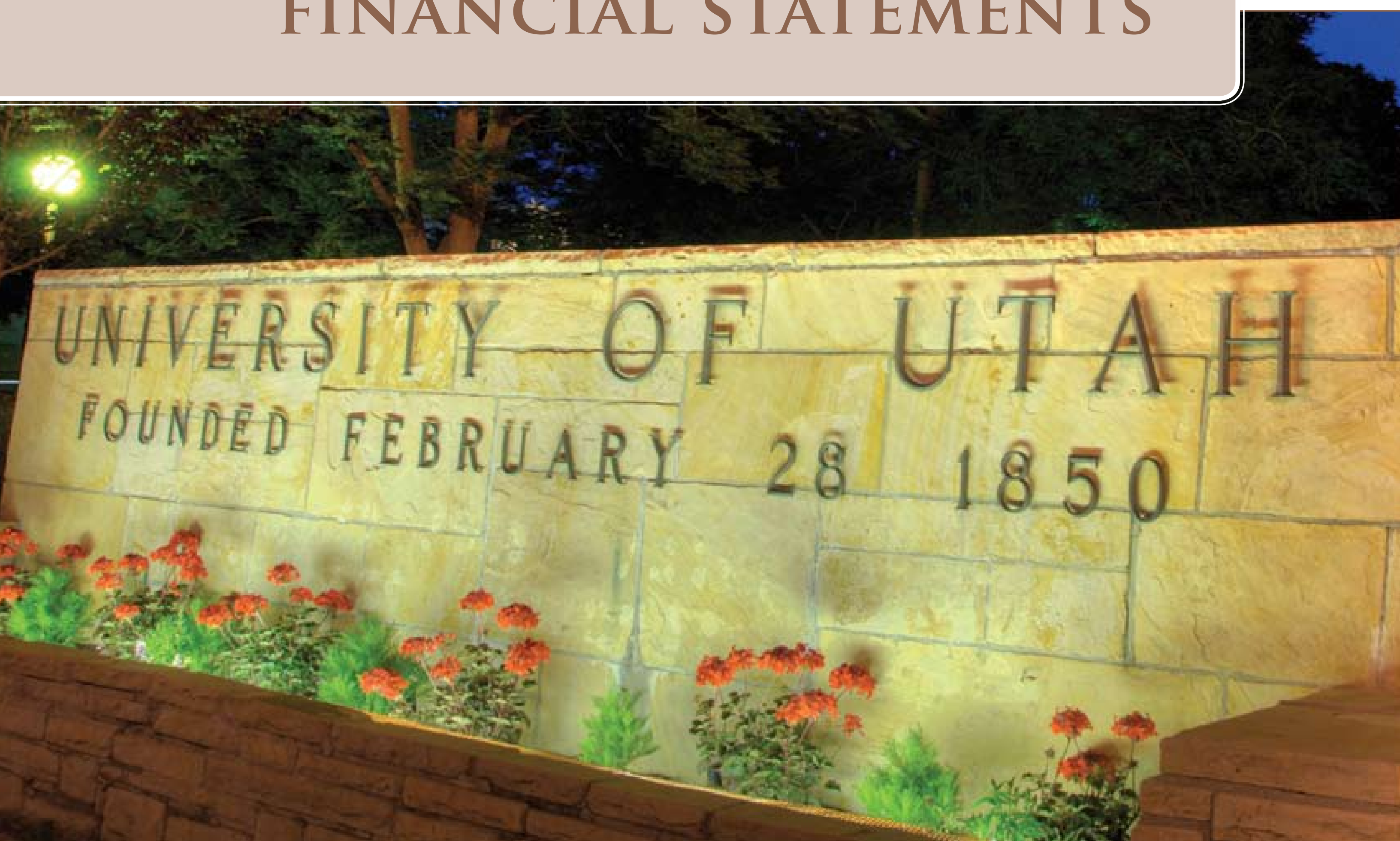
Continued on next page...

(in thousands of dollars)

For the Year Ended June 30

	2010	[For Comparison Only] 2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (211,390)	$ (252,082)
Adjustments		
Depreciation and amortization expense	131,965	118,475
Change in assets and liabilities		
Receivables, net	(5,135)	(20,300)
Inventory	870	(4,866)
Donated property held for sale		
Other assets	4,513	6,006
Accounts payable	(15,047)	17,205
Accrued payroll	(457)	16,516
Compensated absences & early retirement benefits	2,408	3,659
Deferred revenue	(168)	35,044
Deposits and other liabilities	4,331	(58,247)
Net cash used by operating activities	$ (88,110)	$ (138,590)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital leases	$ 20,183	8,081
Donated property and equipment	11,195	4,245
Completed construction projects transferred from State of Utah (Note 1)	7,982	58,941
Annuity and life income	(443)	87
Increase (decrease) in fair value of investments	37,260	(82,102)
Total noncash investing, capital, and financing activities	$ 76,177	(10,748)

NOTES TO FINANCIAL STATEMENTS



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements report the financial activity of the University of Utah (University), including the University of Utah Hospitals and Clinics (UUHC). The University is a component unit of the State of Utah (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 ARUP Laboratories, 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 19, 2010, has been issued under separate cover.

- ARUP, on December 30, 2009, converted from a for-profit corporation to a not-for-profit corporation that provides clinical and anatomic pathology reference laboratory services to medical centers, hospitals, clinics and other clinical laboratories throughout the United States, including UUHC. ARUP contracts with the Department of Pathology of the University of Utah School of Medicine to provide pathology consulting services. The fiscal year end for ARUP is June 30. Other independent auditors audited ARUP and their report, dated November 11, 2010, 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 2010:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The requirements for this standard were implemented in the current fiscal year. The effects on the fiscal year 2009 statement were immaterial, therefore restatement was not required.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The University does not directly invest in derivative instruments; therefore, this standard had no effect on the financial statements in the current fiscal year.

B. Basis of Accounting

All statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Operating activities include all revenues and expenses, derived on an exchange basis, used to support the instructional, research and public service efforts, and other University priorities. Significant recurring sources of the University's revenues are considered nonoperating as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and required by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. 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 the partnerships' audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions.

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, 2010 and 2009:

Revenue Allowance	**2010**	**2009**
Tuition and fees	$27,164,394	$23,547,807
Patient services	67,898,470	59,983,662
Sales and services	15,689	23,774
Auxiliary enterprises	959,803	934,850

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, 2010, were approximately $10,407,000.

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, 2010, was approximately $47,016,000.

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, 77 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 1.037% was used and is based on the average rate earned by the University on cash management investments for the fiscal year. The funding for these early retirement benefits is provided on a pay-as-you-go basis. For the year ended June 30, 2010, these expenditures were approximately $1,647,000.

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, 2009 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, 2010, cash and cash equivalents and short-term investments consisted of:

Cash and Cash Equivalents	
Cash	$ (6,327,817)
Money market funds	38,684,192
Time certificates of deposit	52,552,146
Commercial paper	18,771,535
Utah Public Treasurer's	
Investment Fund	170,891,045
U.S. Agencies	192,988,400
Corporate notes	503,053
Total (fair value)	$468,062,554

Short-term Investments	
Commercial paper	$ 3,990,833
U.S. Treasuries	219,011,250
U.S. Agencies	137,972,800
Corporate notes	43,542,448
Total (fair value)	$404,517,331

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, equity ownership in newly organized companies acquiring these patents along with the right to receive future royalties based on product sales. Minority interests in privately held companies are generally recorded by UURF at a nominal value. Companies for which UURF's ownership exceeds a certain percentage or over which UURF exercises some measure of control are evaluated further and may be recorded using either the cost method, the equity method, or consolidation depending on the investment's materiality to the financial statements. Equity ownership in publicly traded companies is measured at fair value as of June 30, 2010.

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, 2010, is 4% 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, 2010, was approximately $29,081,000. The net appreciation is a component of restricted expendable net assets.

At June 30, 2010, the investment portfolio composition was as follows:

Investments	
U.S. Treasuries	$331,458,084
U.S. Agencies	87,679,835
Municipal bonds	3,677,634
Corporate notes	6,778,755
Mutual funds	414,627,762
Common and preferred stocks	9,350,102
Alternatives	48,092,364
Total (fair value)	$901,664,536

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, 2010, the carrying amounts of the University's deposits and bank balances were $46,732,816 and $60,833,710, 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 $60,333,710 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 (SEC) or the Comptroller of the Currency (e.g., mutual funds); professionally managed pooled or commingled investment funds created under 501(f) of the Internal Revenue Code which satisfy the conditions for exemption from registration under Section 3(c) of the Investment Company Act of 1940; any investment made in accordance with the donor's directions in a written instrument; and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, and private real estate assets or absolute return and long/short hedge funds.

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.

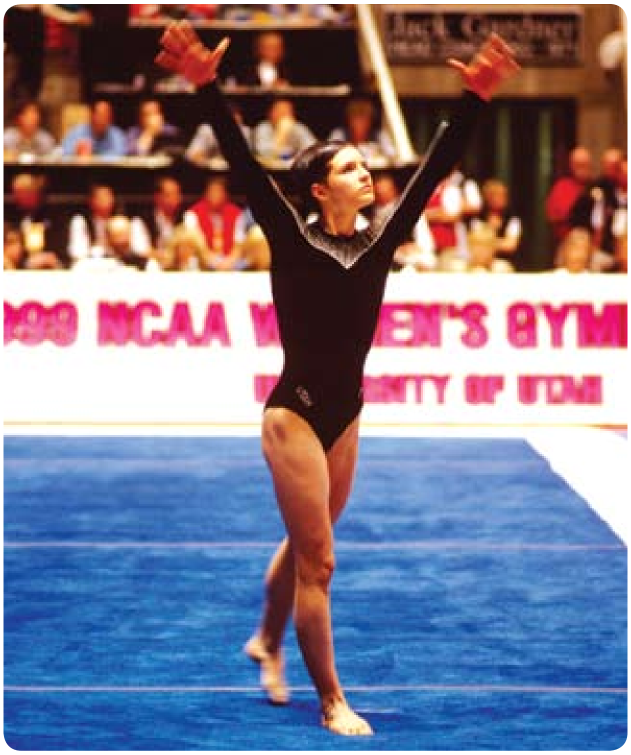
Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act or the UPMIFA and Rule 541, as 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, 2010, 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, 2010, 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 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, 2010, the University's custodial bank was both the custodian and the investment counterparty for $924,739,100 of U.S. Treasury and Agency securities purchased by the University and $44,371,269 of U.S. Treasury and Agency 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 Guidelines 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 AND ACCOUNTS PAYABLE

Accounts, pledges, and interest receivable include hospital patient accounts, medical services plan accounts, trade accounts, pledges, interest income on

Figure 1.

Investment Type	Fair Value	Investment Maturities (in years): Less than 1	1 - 5	6 - 10	More than 10
Money market mutual funds	$ 38,450,018	$ 38,450,018			
Commercial paper	22,762,368	22,762,368			
Utah Public Treasurer's Investment Fund	170,891,045	170,891,045			
U.S. Treasuries	550,469,334	219,011,250	$331,458,084		
U.S. Agencies	418,641,035	330,961,200	83,620,366	$ 4,059,469	
Corporate notes	50,824,256	44,045,501	6,778,755		
Municipal bonds	3,677,634			528,440	$ 3,149,194
Mutual bond funds	212,341,664		47,511,963	143,643,000	21,186,701
Totals	$1,468,057,354	$826,121,382	$469,369,168	$148,230,909	$24,335,895

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.

On March 2, 2010, the IRS issued IR-2010-25, which authorized the refund of 100% of the FICA taxes paid by colleges and universities with respect to their medical residents for tax periods ending before April 1, 2005. As a result, UUHC has recorded a receivable and nonoperating revenue in the amount of $20,703,840.

The following schedule presents receivables at June 30, 2010, including approximately $25,030,000 and $60,391,000 of noncurrent loans and pledges receivable, respectively:

Accounts	$413,828,803
Grants and contracts	44,884,914
Loans	31,948,963
Pledges	61,950,457
IRS refund	20,703,840
Interest	4,284,032
	577,601,009
Less allowances for doubtful accounts	(174,284,877)
Receivables, net	$403,316,132

The following schedule presents the major components of accounts payable at June 30, 2010:

Vendors	$54,736,369
Interest	5,898,343
Payable to State	8,008,646
Other	20,431,283
Total accounts payable	$89,074,641

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, 2010 balance of prepaid rent to the State was $56,176,256.

7. CAPITAL ASSETS

Buildings; infrastructure and improvements, which includes roads, curbs and gutters, streets and sidewalks, and lighting systems; land; equipment; library materials; and intangible assets (primarily software) 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

Figure 2.

		Quality Rating			
Investment Type	**Fair Value**	**AAA/A-1**	**A**	**Unrated**	**No Risk**
Money market mutual funds	$ 38,450,018	$ 261,723		$ 38,188,295	
Commercial paper	22,762,368	22,762,368			
Utah Public Treasurer's Investment Fund	170,891,045			170,891,045	
U.S. Treasuries	550,469,334				$550,469,334
U.S. Agencies	418,641,035	418,641,035			
Corporate notes	50,824,256		$50,824,256		
Municipal bonds	3,677,634	3,149,194	528,440		
Mutual bond funds	212,341,664			212,341,664	
Totals	$1,468,057,354	$444,814,320	$51,352,696	$421,421,004	$550,469,334

in the acquisition of library materials are capitalized. Purchased software is capitalized when acquisition costs are $100,000 or greater and developed software is capitalized when development costs are $1,000,000 or greater. 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, from five to twenty years on equipment and from five to ten years on software. 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, 2010, the University had outstanding commitments for the construction and remodeling of University buildings of approximately $90,953,000.

Capital assets at June 30, 2010, 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

Figure 3.	**Beginning Balance**	**Additions**	**Retirements**	**Ending Balance**
Buildings	$1,540,607,182	$ 60,285,436	$ 461,726	$1,600,430,892
Infrastructure and improvements	178,243,242	9,735,200		187,978,442
Land	18,549,795	1,070,001		19,619,796
Equipment (including intangibles)	630,888,285	79,524,094	31,326,489	679,085,890
Library materials	155,890,183	1,759,008	266,362	157,382,829
Art and special collections	50,329,087	3,851,772	307,150	53,873,709
Construction in progress	251,339,405	220,685,720	138,426,333	333,598,792
Total cost	2,825,847,179	376,911,231	170,788,060	3,031,970,350
Less accumulated depreciation				
Buildings	619,851,711	54,426,184	468,979	673,808,916
Infrastructure and improvements	103,881,069	10,341,173		114,222,242
Equipment	423,152,552	61,060,947	27,231,959	456,981,540
Library materials	100,083,493	5,382,895		105,466,388
Total accumulated depreciation	1,246,968,825	131,211,199	27,700,938	1,350,479,086
Capital assets, net	$1,578,878,354	$245,700,032	$143,087,122	$1,681,491,264

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 30.18%, 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 and Fidelity provide individual retirement fund contracts with each participating employee. In addition, Vanguard also provided individual retirement fund contracts through November 2009, at which time it was dropped as a provider. 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, 2010, 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 UUHC employees hired prior to January 1, 2001, were fully vested as of that date. Employees hired subsequent to January 1, 2001, are 50% vested after four years and fully vest after six years. The University's contribution

Figure 4.	2010	2009	2008
State and School Contributory Retirement System	$ 1,397,844	$ 1,527,460	$ 1,555,310
State and School Noncontributory Retirement System	25,445,292	26,010,222	25,209,056
Public Safety Noncontributory Retirement System	412,295	403,770	316,579
TIAA-CREF	68,358,983	66,282,674	63,247,520
Fidelity	22,242,753	18,564,335	7,457,205
Vanguard	291,345	2,706,528	1,808,724
Pension plan	9,395,166	8,758,713	7,280,524
Profit sharing plan	8,936,365	8,079,552	7,036,696
Total contributions	$136,480,043	$132,333,254	$113,911,614

for these health clinic employees was 6.00% of the employees' annual salaries.

In addition, employees of the University may also contribute to a 403(b) traditional or Roth IRA plan. For employees enrolled in the Hospital Retirement Plan and contribute to a 403(b) IRA plan, the University matches up to 3% of an employee's contribution. Total University employee contributions to the 403(b) plans for the fiscal year 2010 was approximately $29,584,000.

The ARUP defined contribution pension and profit sharing plans provide retirement benefits for all employees. Employees may choose 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, 2010, 2009, and 2008, 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, 2010, was $80,561,658.

In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of $11,981,722 as of June 30, 2010, based on a predetermined formula. The fair value of this stock as of June 30, 2010 cannot be determined because the stock is not actively traded.

11. RISK MANAGEMENT

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

In addition, the University maintains self-insurance funds for health care, dental, and auto/physical damage, as well as hospital and physicians malpractice liability self-insurance funds. The malpractice liability self-insurance funds are held in trust with an independent financial institution in compliance with Medicare reimbursement regulations. Based on an analysis prepared by an independent actuary, the administration believes that the balance in the trust funds as of June 30, 2010, 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, 2010, 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 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, 2010, were approximately $37,437,000.

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,

Figure 5.

	2010	2009
Estimated claims liability - beginning of year	$ 50,254,957	$ 70,529,051
Current year claims and changes in estimates	199,360,112	144,002,554
Claim payments, including related legal and administrative expenses	(196,624,496)	(164,276,648)
Estimated claims liability - end of year	$ 52,990,573	$ 50,254,957

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, 2010, the historical cost of land and buildings held for lease and the related accumulated depreciation were $39,250,780 and $14,162,194, 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 $98,843,195 for buildings and equipment, respectively. Accumulated depreciation for these buildings and equipment amounts to $927,500 and $60,042,882, 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 $21,059,311 for the University and $6,726,302 for component units for the year ended June 30, 2010. Total operating lease commitments for the University include approximately $7,429,102 of commitments to component units and $148,574,000 to the State for Phase IIB of the Huntsman Cancer Hospital.

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 related to these buildings for the year ended June 30, 2010 were $5,962,705.

The University entered into a lease agreement on April 23, 2010, for the land and facilities related to a medical clinic in South Jordan, which is currently under construction. It is estimated that the undiscounted future rent payments will total approximately $126,600,000 over the life of the lease, which has a minimum 20 year lease term and an option to purchase the land and facilities. The commencement date of this lease will not occur until the construction is completed and the University takes possession of the facilities. Per the terms of the lease agreement, the commencement date will not occur prior to July 1, 2011.

Future minimum lease commitments for operating and capital leases as of June 30, 2010 are shown in *Figure 6*.

Figure 6.

Fiscal Year	Operating	Capital
2011	$ 26,803,909	$16,308,687
2012	23,327,191	14,256,172
2013	24,391,596	11,150,572
2014	24,369,633	6,905,561
2015	24,747,940	4,354,807
2016 – 2020	95,692,903	2,978,501
2021 – 2025	79,098,661	1,874,202
2026 – 2030	68,045,417	
2031 – 2035	1,523,037	
2036 – 2040	875,000	
2041 – 2045	875,000	
2046 – 2050	700,000	
Total future minimum lease payments	$370,450,287	57,828,502
Amount representing interest		(5,185,644)
Present value of future minimum lease payments		$52,642,858

15. BONDS PAYABLE AND 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, 2010, is $4,585,000.

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 JPMorgan Chase Bank and is valid through July 30, 2013. Through June 30, 2010, no funds have been drawn against the agreement. The interest requirement for the Series 1997A Bonds is calculated using an annualized interest rate of 0.24%, which is the rate in effect at June 30, 2010.

The Hospital Revenue Refunding Bonds Series 2008 currently bear interest at a weekly rate in accordance with the bond provisions. When a weekly 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

Figure 7.

Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2010(a)
Auxiliary and Campus Facilities						
Series 1987A - Refunding	3/1/87	2014	3.750% - 6.750%	$ 11,140,000	$ 265,000	$ 565,000
Series 1997A - Revenue	7/30/97	2027	Variable	52,590,000	1,340,000	7,545,000
Series 1998A - Revenue Refunding	7/1/98	2029	4.100% - 5.250%	120,240,000	25,444	31,150,125
Series 2005A - Refunding	8/2/05	2021	3.000% - 5.000%	42,955,000	3,081,461	37,273,410
Series 2010A - Revenue Refunding	5/11/10	2024	2.000% - 5.000%	23,515,000	521,886	26,156,353
Hospital						
Series 2005A - Revenue Refunding	7/14/05	2018	4.500% - 5.000%	30,480,000	3,471,153	28,960,044
Series 2006A - Revenue Refunding	10/26/06	2032	4.000% - 5.250%	77,145,000	120,712	81,902,299
Series 2008 - Revenue Refunding	12/1/08	2031	Variable	20,640,000	545,000	20,120,000
Series 2009A - Revenue	12/17/09	2017	4.000% - 5.000%	9,135,000	182,359	9,884,795
Series 2009B - Taxable Revenue	12/17/09	2031	4.697% - 5.247%	41,785,000	-	41,785,000
Research Facilities						
Series 2004A - Revenue	6/30/04	2019	3.000% - 4.700%	9,685,000	602,487	6,436,242
Series 2005A - Revenue	2/15/05	2025	3.000% - 5.000%	5,515,000	230,301	4,625,922
Series 2005B - Refunding	6/07/05	2020	3.000% - 5.000%	20,130,000	2,879,010	13,723,977
Series 2008A - Revenue Refunding	10/7/08	2022	3.250% - 5.000%	9,360,000	572,365	8,502,138
Series 2009A - Revenue	8/26/09	2019	4.000% - 5.000%	19,080,000	1,748,711	18,457,599
Series 2009B - Taxable Revenue	8/26/09	2029	5.670% - 6.279%	27,730,000	-	27,730,000
Certificates of Participation						
Series 2007	4/3/07	2027	4.000% - 5.500%	42,450,000	1,552,769	40,077,486
Total					$17,138,658	$404,895,390

(a) Includes unamortized premiums and losses on refunding.

Figure 8.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$279,152,640	$126,512,536	$ 40,847,272	$364,817,904	$ 15,585,889
Certificates of participation	40,868,048		790,562	40,077,486	1,552,769
Capital leases payable	45,765,802	20,183,085	13,306,029	52,642,858	14,744,976
Notes and contracts payable	14,423,985	721,619	1,227,407	13,918,197	1,583,128
Total long-term debt	380,210,475	147,417,240	56,171,270	471,456,445	33,466,762
Compensated absences	47,727,055	43,510,623	41,102,409	50,135,269	4,695,834
Deposits & other liabilities	77,544,508	73,972,091	68,051,826	83,464,773	70,564,503
Total long-term liabilities	$505,482,038	$264,899,954	$165,325,505	$605,056,487	$108,727,099

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, 2011. Through June 30, 2010, 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 0.33%, which is the rate in effect at June 30, 2010.

During fiscal year 2010, the University issued five revenue bonds series. The first two series were the Research Facilities Revenue Bonds Series 2009A in the amount of $19,080,000 and Taxable Research Facilities Revenue Bonds, Series 2009B (Issuer Subsidy – Build America Bonds) in the amount of $27,730,000 issued on August 26, 2009 for the purpose of acquiring and constructing certain infrastructure improvements necessary for interdisciplinary research. The second two series were the Hospital Revenue Bond Series 2009A in the amount of $9,135,000 and Taxable Hospital Revenue Bonds Series 2009B (Issuer Subsidy – Build America Bonds) in the amount of $41,785,000 issued on December 17, 2009 for the purpose of constructing, equipping and furnishing and expansion of the University of Utah Neuropsychiatric Institute. The fifth series is the Auxiliary and Campus Facilities Revenue Refunding Bonds, Series 2010A in the amount of $23,515,000 issued on May 11, 2010 for the purpose of partially refunding Series 1998A, fully refund Series 1999A, and defeasing Series 2001.

Figure 7, on the previous page, lists the outstanding bonds payable and certificates of participation of the University at June 30, 2010.

UURF has purchased three buildings with two mortgages that are guaranteed by the University. The remaining amounts of the mortgages are $5,152,617 at 8.87% interest and $2,553,129 at 7.15% interest. The mortgages 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 Wakara Way for the Health Science Center. The remaining balance of debt related to those costs is $2,694,764 at interest rates ranging from 3.00% to 4.70%.

Figure 8, on the previous page, summarizes the changes in long-term liabilities for the year ended June 30, 2010.

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

	Payments	
Fiscal Year	**Principal**	**Interest**
2011	$ 33,466,762	$ 20,908,030
2012	30,370,926	19,504,221
2013	29,507,789	18,429,854
2014	26,393,782	17,421,944
2015	24,412,301	16,431,510
2016 – 2020	101,523,723	68,060,806
2021 – 2025	99,538,278	43,920,879
2026 – 2030	104,642,767	18,222,636
2031 – 2032	21,600,117	872,046
Total	$471,456,445	$223,771,926

Interest related to bonds systems with pledged revenues amounts to $196,853,730 and is included in the interest amounts in the above schedule.

16. RETIREMENT OF DEBT

In prior years, the University defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds. In addition, the University issued on May 11, 2010, Auxiliary and Campus Facilities System Revenue Refunding Bonds Series 2010A in the amount of $23,515,000 for a partial refunding Auxiliary and Campus Facilities System Revenue Refunding Bonds Series 1998A and a complete refunding of the Auxiliary and Campus Facilities System Revenue Refunding Bonds Series 1999A and Series 2001. Proceeds for the refunding of the Auxiliary and Campus Facilities System Revenue Refunding Bonds Series 2001 were placed in an escrow account to be held for future bonds payments. This advance refunding resulted in a reduction of the University's aggregate debt service payments of approximately $1,256,506 over the next 19 years and a present value economic gain of approximately $1,223,000. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. The total principal amount of defeased bonds held in irrevocable trusts at June 30, 2010, is $29,400,000.

Figure 9.

Function	Compensation and Benefits	Supplies and Services	Utilities	Scholarships & Fellowships	Depreciation & Amortization	Component Units	Total
Instruction	$ 252,164	$ 35,132	$ 1,817	$31,200			$ 320,313
Research	169,831	89,508	1,685	3,198			264,222
Public service	391,834	66,869	20,345	1,243			480,291
Academic support	59,804	20,817	704	158			81,483
Student services	15,080	5,853	237	354			21,524
Institutional support	67,546	(10,246)	4,756	273			62,329
Plant maintenance	21,077	22,584	15,804	1			59,466
Student aid	3,184	36,368	11	(13,835)			25,728
Other	30,856	(45,728)	5,908	2,494	$116,175		109,705
Hospital	399,272	383,629	10,064				792,965
Component Units	2,696				15,791	$347,731	366,218
Total	$1,413,344	$604,786	$61,331	$25,086	$131,966	$347,731	$2,584,244

17. FUNCTIONAL CLASSIFICATION OF EXPENSES

Figure 9 above presents, in thousands of dollars, operating expenses by functional classification for the year ended June 30, 2010.

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.
- *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, 2010.

Figure 10.

	Bond Systems		
	Auxiliary & Campus Facilities	Hospital	Research Facilities
Revenue			
Operating revenue	$69,785,380	$862,856,224	$76,672,209
Nonoperating revenue	8,097,466	27,170,304	
Total revenue	77,882,846	890,026,528	76,672,209
Expenses			
Operating expenses	57,781,830	792,971,087	51,331,263
Total expenses	57,781,830	792,971,087	51,331,263
Net pledged revenue	$20,101,016	$ 97,055,441	$25,340,946
Principal paid and interest expense	$ 9,649,998	$ 8,943,761	$ 8,977,851

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, 2010, the University had committed, but not paid, a total of $21,324,885 in funding for these alternative investments.

20. SUBSEQUENT EVENTS

On August 2, 2010, the University issued $36,120,000 of Hospital Revenue Bonds, Series 2010. Principal on the bonds is due annually commencing August 1, 2011 through August 1, 2026. Bond interest is due semiannually commencing February 1, 2011 at rates ranging from 3.00% to 5.00%. Proceeds from these bonds will be used to acquire two buildings for use by the Hospital.

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