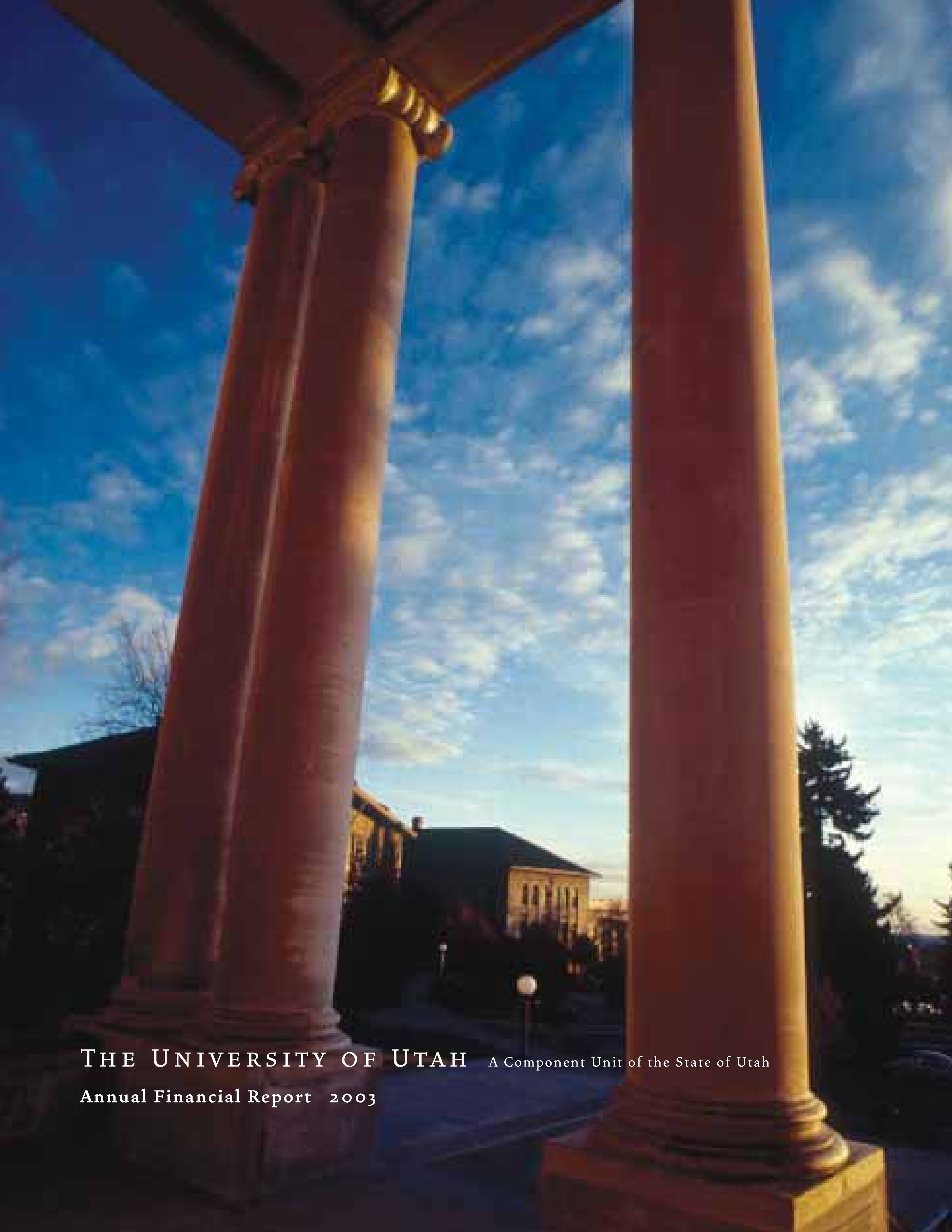

The University of Utah A Component Unit of the State of Utah

Annual Financial Report 2003

THE UNIVERSITY OF UTAH
Annual Financial Report 2003

THE UNIVERSITY OF UTAH

ANNUAL FINANCIAL REPORT PREPARED BY:

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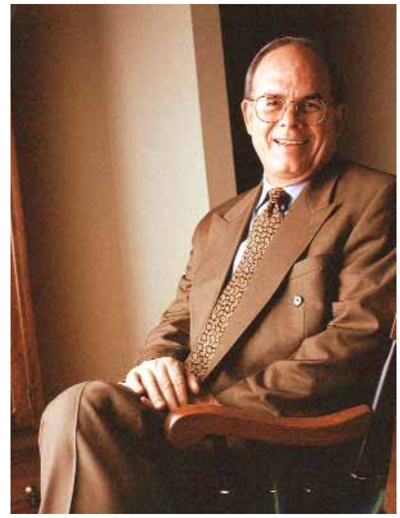
Contents

Message from the President

As I near the end of my service as President of the University of Utah, I keenly appreciate the strength and vitality of this institution. Our chief assets are the dedication and diversity of our people—students, faculty, alumni, and staff—and the support of the citizens of Utah.



J. Bernard Machen, President

I am pleased to report that the University is in good financial condition. Despite a sluggish economic recovery and other fiscal setbacks, the University remains well-positioned to meet short-term challenges and stay on course to achieve higher levels of excellence. The University derives financial stability from diverse sources of revenues, including student tuition and fees, the State of Utah, federal grants and contracts, patient care, and private support.

In the period covered by this report, there have been many positive developments. For instance:

- Donated support increased once again. The University continues to be one of very few public institutions in the country that receives more than $100 million in private support annually. We enjoy great support from the staff and faculty, as evidenced by their record-breaking donations totaling $1.4 million.

- Research awards rose by 4%, from $275 million in 2001-2002 to $287 million in 2002-2003. Highlights include a grant of $10.5 from the National Institutes of Health to research the genetics of tobacco addiction and chronic lung disease.

- University Hospitals and Clinics ended the fiscal year in better financial position than any time in recent history. For the 10th consecutive year, U.S. News & World Report ranked University Hospital's clinical programs in the top 20% nationally, and the hospital is consistently rated as Utah's No. 1 Consumer Choice Award winner for best doctors, nurses and overall quality of care.

- The Health Sciences Center continues to expand to better meet Utah's health-care needs. Within the past year we celebrated the opening of the George S. and Dolores Dore Eccles Critical Care Pavilion, a $42.5 facility that rates among the best in the west for emergency care and surgery. Groundbreaking ceremonies were held for the Emma Eccles Jones Medical Sciences Building, the Health Sciences Education Building, and a University of Utah Orthopedic Center.

- The vitality of the Health Sciences Center as well as other southeast campus destinations was enhanced by completion of the Medical Center TRAX light-rail extension, which opened in September.

I am leaving a strong leadership team, which I am confident will continue moving forward. The University launched the first phase of a strategic academic and long-range campus development planning effort last spring. This will help sharpen our vision as we move forward in our mission to put academics first, promote diversity of thought and culture, conduct cutting-edge research, and engage our students and faculty to serve our community and the State of Utah.

Bernie Machen

Auston G. Johnson, CPA
UTAH STATE AUDITOR

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Independent State Auditor's Report

To the University of Utah Board of Trustees
and
Dr. J. Bernard Machen, President

We have audited the accompanying financial statements of the University of Utah (hereinafter referred to as the "University"), a component unit of the State of Utah, as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Utah Hospital and its related institute and clinics or the Component Units, which represent 21% ($446,300,000) for 2003 and 20% ($398,200,000) for 2002 of total assets and 38% ($685,200,000) for 2003 and 38% ($632,900,000) for 2002 of total revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University Hospital and the component units, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Component Units were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University as of June 30, 2003 and 2002, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1. G. to the financial statements, the University has implemented the financial reporting requirements of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 39, *Determining Whether Certain Organizations Are Component Units* as of June 30, 2002.

The accompanying management discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Auston G. Johnson

Auston G. Johnson, CPA
Utah State Auditor
October 3, 2003

Management's Discussion and Analysis

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the University of Utah (University) for the year ended June 30, 2003, with selected comparative information for the year ended June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University is a comprehensive public institution of higher learning with approximately 28,400 students and 2,300 faculty members. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels, through a framework of 92 departmental units in 15 schools, colleges and divisions, and contributes to the state and nation through related research and public service programs. The University also maintains a prestigious health care complex through its University of Utah Hospitals and Clinics (UUHC). The UUHC consists of two hospitals and 36 specialty clinics. The UUHC is an integral part of the University's health care system that also includes the University's School of Medicine and the Colleges of Health, Nursing, and Pharmacy. UUHC has a tradition of excellence in teaching, advancement of medical science and patient care, consistently ranking among the best health care systems in the western United States. The University, in total, employs more than 20,000 people.

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

In addition to the academic schools, colleges, and departments, the University operates the University of Utah Research Foundation, a separately incorporated entity that specializes in applied research, the transfer of patented technology to business entities, and the rental of UURF property. Also, a wholly-owned, separately incorporated enterprise, the Associated Regional University Pathologists, Inc. provides pathology services to regional and national customers.

FINANCIAL HIGHLIGHTS

The University's financial position remained strong at June 30, 2003, with assets of $2.1 billion and total liabilities of $.6 billion. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased by $95.8 million to $1.5 billion at June 30, 2003.

Changes in net assets represent the total activity of the University, which results from all revenues, expenses, gains and losses, and are summarized for the years ended June 30, 2003 and 2002 as follows:

	2003	2002
	(in thousands)	
Total revenues before change in fair value of investments	$1,746,742	$1,691,536
Total expenses	1,657,328	1,623,512
Increase in net assets before change in fair value of investments	89,414	68,024
Increase (decrease) in fair value of investments	6,384	(28,077)
Increase in net assets	$95,798	$39,947

The University invests its endowment funds to maximize total return over the long term, with an appropriate level of risk. The success of this long-term investment strategy is evidenced by returns averaging 8.9% during the past twelve years. The reduction in the fair value of the endowment portfolio has had a significant impact on the portion of investment income available to support current year operating expenses. The challenging market conditions have required the University to make prudent changes to its spending rate policy.

Fiscal year 2003 revenues before change in fair value of investments increased 3.3%, or $55.2 million, while expenses increased 2.1%, or $33.8 million. This resulted in a net gain before changes in fair value of investments of $89.4 million for fiscal year 2003, and $68.0 million for fiscal year 2002.

USING THE FINANCIAL STATEMENTS

The University's financial report is prepared in accordance with Government Accounting Standards Board (GASB) principles and includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

Revenues and expenses are categorized as operating, nonoperating, or capital contributions and additions to permanent endowments. Significant recurring sources of the University's revenues, including state appropriations, gifts and investment income (loss), are considered nonoperating, as defined by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Nonoperating revenues totaled $282.6 million and $269.2 million for the years ended June 30, 2003 and 2002, respectively. Nonoperating expenses, which include interest expense, totaled $21.3 million and $21.7 million for the years ended June 30, 2003 and 2002, respectively.

Also, as required by GASB Statement No. 34, scholarships and fellowships applied to student accounts are shown as a reduction of student tuition and fee revenues, while stipends and other payments made directly to students continue to be presented as scholarship and fellowship expenses. In addition, other appropriate revenue items have been reduced by bad debt expense incurred during each fiscal year.

For the years ended June 30, 2003 and 2002, scholarship and fellowship expenses totaled $17.5 million and $14.9 million, respectively. In addition, scholarships and fellowships in the amount of $9.4 million and $8.7 million for the years ended June 30, 2003 and 2002, are reported as a reduction of tuition and fees and auxiliary enterprises revenue.

STATEMENT OF NET ASSETS

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

A summarized comparison of the University's assets, liabilities and net assets at June 30, 2003 and 2002 follows:

	2003	2002
	(in thousands)	
Current assets	$519,147	$443,586
Noncurrent assets		
Endowment and other investments	507,724	490,351
Receivables	27,840	36,384
Capital assets, net	1,024,498	1,011,027
Other	22,449	28,870
Total assets	2,101,658	2,010,218
Current liabilities	207,969	198,680
Noncurrent liabilities	348,381	362,028
Total liabilities	556,350	560,708
Net assets	$1,545,308	$1,449,510

A review of the University's Statement of Net Assets at June 30, 2003 and 2002, shows that the University continues to build upon its strong financial foundation. This strong financial position reflects the prudent utilization of its financial resources, including careful cost controls, management of its endowment funds, utilization of debt and adherence to its long range capital plan for the maintenance and replacement of the physical plant.

Current assets consist primarily of cash, operating investments, trade receivables and inventories. Current assets represent approximately 3.0 months of total operating expenses (excluding depreciation). Current investments for capital and student loan activities totaled $92.5 million at June 30, 2003 and $84.8 million at June 30, 2002. Accounts receivable decreased slightly from $193.2 million at June 30, 2002 to $190.7 million at June 30, 2003.

Current liabilities consist primarily of trade accounts, accrued compensation, deposits, and other liabilities, which totaled $208.0 million at June 30, 2003, as compared to $198.7 million at June 30, 2002. Current liabilities also include deferred revenue, and the current portion of bonds payable. Total current liabilities increased $9.3 million during fiscal year 2003.

ENDOWMENT AND SIMILAR INVESTMENTS

The University's endowment funds consist of both permanent endowments and funds functioning as endowments. Permanent endowments are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donor. Funds functioning as endowments consist of amounts (restricted gifts or unrestricted funds) that have been allocated by the University for long-term investment purposes, although amounts are not subject to donor restrictions requiring the University to preserve the principal in perpetuity. Programs supported by endowment funds include scholarships, fellowships, professorships, research efforts and other important programs and activities.

The University of Utah endowment pool returned 4.1% for the year ended June 30, 2003 compared to a loss of 8.7% for the year ended June 30, 2002. These results reflect the heavy weighting of equities in the asset allocation of the pool but compare favorably to broad indexes such as the S&P 500 (0.3% gain for fiscal year 2003). The net gain on the endowment pool for the year ended June 30, 2003 totaled $4.6 million compared to a loss of $27.8 million for the year ended June 30, 2002.

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

Endowment funds invested in the University's endowment pool are invested on a unit basis similar to mutual funds where each new dollar buys a number of shares in the pool. The pool is subject to a spending policy, which determines a distribution rate of return that will be used to allocate funds to University departments from the growth portion of the endowment pool. The purpose of the spending policy is to establish a distribution rate that over time will generate returns adequate to continue support for future expenses in perpetuity assuming moderate levels of inflation. During the year ended June 30, 2003, the spending policy was 4.0% of the twelve quarter moving average of unit market values. Endowment pool income used in operations was $9.2 million in fiscal year 2003. The amount allocated to operations exceeded yield (dividends and interest) earned on pool investments by $3.9 million.

Since endowment funds are invested for long-term results rather than short-term annual returns, it is important to reflect on the longer investment horizon. Over the past ten years, the University's endowment pool has earned an average total return of 7.5%, paid out an average of 4.3%, and reinvested the balance representing an average of 3.2%. The reinvested funds enabled higher balances, thus yielding greater returns to keep pace with inflation of program expenses. Due to the negative performance of investments experienced in fiscal year 2002, the University has recently reexamined spending policies to balance the short term and long-term needs of the University. Endowments provide crucial support for the University's quality academic programs and accessibility to these programs for all students.

Gifts to the endowment funds at the University totaled $7.2 million and $16.3 million for the fiscal years 2003 and 2002, respectively. The additional gifts helped to offset the reduction in market values experienced in fiscal year 2002 and served to help ensure continued support for important academic programs and services.

CAPITAL AND DEBT ACTIVITIES

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

Capital additions totaled $196.4 million in fiscal year 2003, as compared to $145.6 million in fiscal year 2002. Capital additions primarily comprise replacement, renovation, and new construction of academic, research, and health care facilities, as well as significant investments in equipment. Capital asset additions are funded by capital appropriations, bond proceeds, gifts which were designated for capital purposes, and unrestricted net assets.

Construction in progress at June 30, 2003, totaled $68.5 million that includes projects in numerous buildings across the campus. Significant projects include: Cowles building for classroom renovation; student housing facilities; and expansion of the University Hospital for new emergency room facilities, operating rooms, and surgical intensive care unit beds.

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. The debt rating of the University is an important indicator of success in this area. The underlying bond ratings from Standard and Poor's and Moody's Investors Service for the Auxiliary and Campus Facilities Bonds and the Research Facilities Revenue Bonds are AA/Aa3, and for the Hospital Revenue Bonds are A-/A3, respectively. These ratings are considered high investment grade quality and positions the University, if deemed necessary, to obtain future debt financing at low interest rates and reduced issuance costs.

Bonds payable totaled $241.0 million and $249.4 million at June 30, 2003 and 2002, respectively. These bonds were issued in prior years to finance new construction or renovation of the Huntsman Cancer Institute, a new biology research building, the University Hospital expansion, and auxiliary enterprise facilities, including Rice-Eccles Stadium, student housing, and parking, as well as equipment for the University Hospital.

An institution's ratio of unrestricted operating revenues to bonds, notes and contract debt is a valuable indicator of its ability to finance its outstanding debt. At June 30, 2003, the University has 3.5 times the unrestricted operating revenue necessary to meet its debt requirements.

NET ASSETS

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

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

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

Restricted expendable net assets are subject to externally imposed restrictions governing their use. This category of net assets includes $63.8 million of funds functioning as endowments.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic and research programs and initiatives, as well as capital projects. In addition, unrestricted net assets include funds functioning as endowments of $23.2 million.

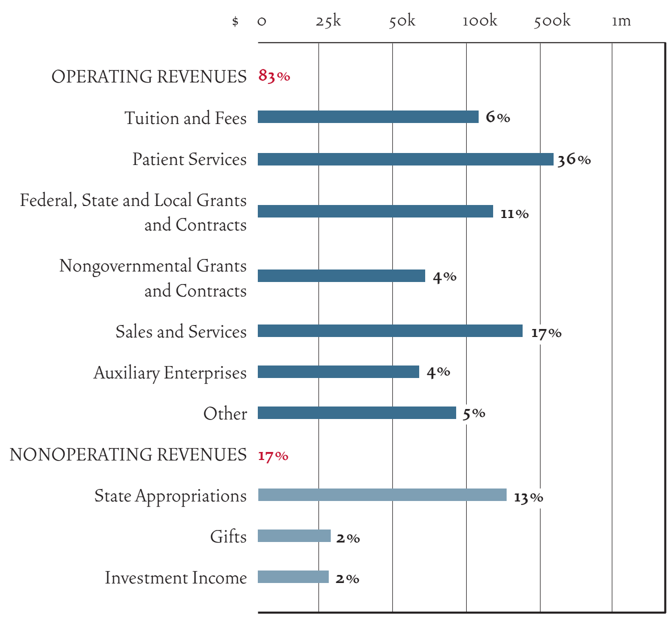
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations. A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2003 and 2002 follows:

	2003	2002
	(in thousands)	
Operating revenues		
Tuition and fees	$107,796	$96,620
Patient services	620,460	581,686
Grants and contracts	262,557	260,974
Sales and services	291,039	250,164
Auxiliary enterprises	63,508	57,111
Other	89,899	89,204
Total operating revenues	1,435,259	1,335,759
Operating expenses	1,636,028	1,601,787
Operating loss	(200,769)	(266,028)
Nonoperating revenues (expenses)		
State appropriations	227,821	237,169
Gifts	27,482	36,554
Investment income (loss)	27,338	(4,486)
Interest expense	(17,692)	(19,121)
Other expenses	(3,608)	(2,604)
Net nonoperating revenues	261,341	247,512
Capital appropriations	7,730	36,107
Capital and endowment grants and gifts	27,496	22,356
Total capital and endowment revenues	35,226	58,463
Increase in net assets	95,798	39,947
Net assets–beginning of year, restated	1,449,510	1,409,563
Net assets –end of year	$1,545,308	$1,449,510

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

Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 34. The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the University's operations for the year ended June 30, 2003 (amounts are presented in thousands of dollars).



The University continues to face significant financial pressure, particularly in the areas of compensation and benefits, which represent 50.3 percent of total expenses, as well as in the areas of technology and investments. To manage this financial pressure, the University continues to seek diversified sources of revenue and to implement cost containment measures.

Tuition and state appropriations are the primary sources of funding for the University's academic programs. Student tuition and fees, net of allowances for scholarships and fellowships, increased $11.2 million, or 11.6% to $107.8 million in fiscal year 2003. State appropriations decreased $9.3 million, or 3.9% to $227.8 million in fiscal year 2003.

While tuition and state appropriations fund a significant percentage of the University's academic and administrative costs, private support has been, and will continue to be, essential to the University's academic success. The struggling economy of both the State of Utah and nation has had a negative impact on private support. Gift revenues for operations decreased 24.8%, or $9.1 million, to $27.5 million in fiscal year 2003.

Revenues for grants and contracts increased 0.6%, or $1.6 million, to $262.6 million in fiscal year 2003, primarily related to research programs. The increase in grant and contract revenues was generated by a broad base of schools, colleges, and research units across the University. The University receives revenues for grants and contracts from government and private sources, which provide for the recovery of direct costs and facilities and administrative (indirect) costs.

Patient care revenues increased 6.7% or $38.8 million to $620.5 million in fiscal year 2003. The majority of these revenues relate to patient care services, which are generated within UUHC under contractual arrangements with governmental payers and private insurers. Increased revenues primarily resulted from a growth in patient volume.

Net investment income (loss) for the years ended June 30, 2003 and 2002, consisted of the following components:

	2003	2002
	(in thousands)	
Interest and dividends, net	$20,954	$23,591
Net increase (decrease) in fair value of investments	6,384	(28,077)
Net investment income (loss)	$27,338	$(4,486)

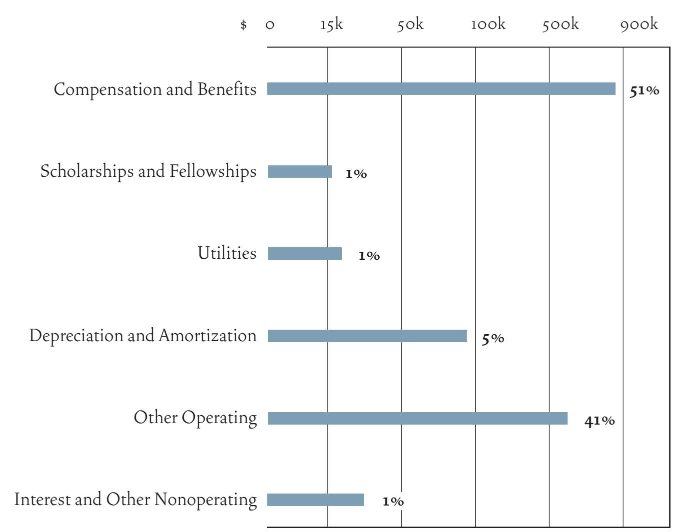
Net investment income totaled $27.3 million in fiscal year 2003, as compared to net investment loss of $4.5 million in fiscal year 2002, which is a net increase of $31.8 million over the two-year period. Moreover, as discussed previously, the University's endowment investment policies are designed to maximize long-term total return while its income distribution policies are designed to preserve the value of the endowment portfolio and to generate a predictable stream of spendable income. The income distribution from the University's endowment portfolio for the support of operating activities, in accordance with the University's spending policy, totaled $9.2 million in fiscal year 2003, as compared to $13.2 million in fiscal year 2002. In addition, in fiscal year 2003, $4.4 million was returned to endowment principal.

Capital appropriations received from the State in fiscal year 2003, which totaled $7.7 million, funded a portion of building renovation projects. Other revenues include capital grants and gifts and additions to permanent endowments totaling $27.5 million for the fiscal year ending June 30, 2003.

A comparative summary of the University's expenses for the years ended June 30, 2003 and 2002 follows:

	2003	2002
	(in thousands)	
Operating		
Compensation and benefits	$833,590	$792,061
Scholarships and fellowships	17,541	14,931
Utilities	19,627	16,898
Depreciation and amortization	90,062	92,700
Other	675,208	685,197
Total operating	1,636,028	1,601,787
Nonoperating		
Interest and other	21,300	21,725
Total expenses	$1,657,328	$1,623,512

The following is a graphic illustration of total expenses, in



thousands of dollars, by natural classification:

The University is committed to recruiting and retaining an outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. The resources expended for compensation and benefits increased 5.2%, or $41.5 million, to $833.6 million in fiscal year 2003. Of this increase, compensation increased 1.0%, or $5.0 million, as a result of annual increases and the hiring of additional employees. The related employee benefits increased 13.2% or $36.5 million in fiscal year 2003, due primarily to increased medical benefits paid by the University.

Other operating expenses decreased 1.5%, or $10.0 million, to $675.2 million in fiscal year 2003.

In addition to their natural classification, it is also informative to review operating expenses by function. A comparative summary of the University's operating expenses by functional classification for the years ended June 30, 2003 and 2002 follows:

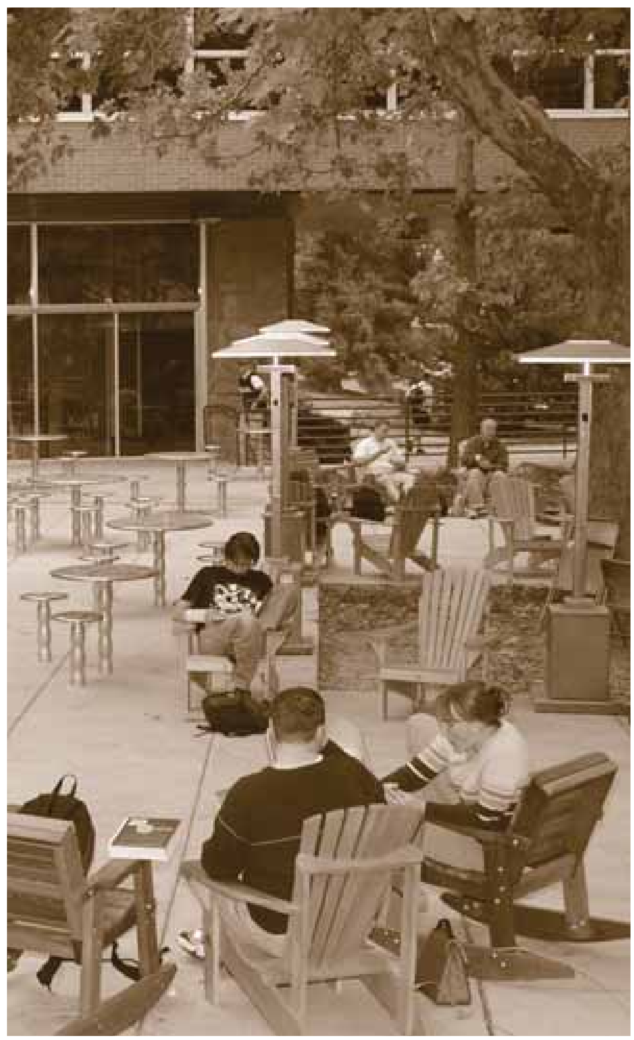
	2003	2002
	(in thousands)	
Instruction	$ 199,598	$ 195,554
Research	231,836	223,534
Public service	291,066	273,933
Academic support	62,033	60,054
Student services	16,126	14,831
Institutional support	42,608	46,323
Operations and maintenance of plant	38,020	38,145
Student aid	30,369	26,629
Other	281,738	294,889
Hospital	442,634	427,895
Total operating expenses	$1,636,028	$1,601,787

Instruction, research, and public service expenses increased 4.3%, or $29.5 million, to $722.5 million in fiscal year 2003. Institutional and academic support expenses decreased 1.6%, or $1.7 million, to $104.6 million in fiscal year 2003.

STATEMENT OF CASH FLOWS

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

The University's cash and cash equivalents increased $69.9 million due to the positive flow of funds provided by noncapital financing activities in support of operating activities, offset by the use of funds for capital acquisitions and related financing activities. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 34, include state appropriations and private gifts used to fund operating activities.



ECONOMIC FACTORS AFFECTING THE FUTURE

Looking toward the future, management believes that the University is well-positioned to continue its strong financial condition and level of excellence in service to students, patients, the research community, the State and the nation. The University's strong financial position will provide a high degree of flexibility in obtaining funds, if needed for specific projects, on competitive terms. This flexibility, along with the University's ongoing efforts toward revenue diversification and cost containment, will enable the University to provide the necessary resources to support this level of excellence although the University faces several significant challenges.

As a labor-intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. Moreover, other costs, such as supplies and other services – as well as costs of the University's health benefits – have increased dramatically over the past several years, with the increasing cost of medical care and prescription drugs of particular concern. The University's success in meeting these challenges will depend in part upon the ability of the State of Utah to provide adequate financial support through state appropriations.

A crucial element in the University's future will continue to be our relationship with the State of Utah. In recent years the State's economy has followed the nation in sliding into a shallow recession and then struggling to achieve sustained and significant growth coming out of recession. While the worst appears to be over and the upturn underway, it may well be several years before the State's economy expands to a point where major new funds can flow to higher education. The State drew down on reserves and made use of one-time funds in order to mitigate the impact of the economic downturn. Among the State's highest priorities in the short term will be the rebuilding of reserves and the replacement of one-time funds with on-going funds.

Given the outlook for state appropriations, the University will continue to emphasize cost containment and to depend on tuition and fees for incremental revenue. The University's tuition and fees remain well below national and regional benchmarks, which leaves ample room for rate increases. However, while we expect tuition and fees to increase annually, in good times and bad, the near double-digit increases of the past two years are clearly undesirable and probably not sustainable politically.

Private gifts are an important supplement to the fundamental support from the State and tuition, and a significant factor in the vitality of many academic units. Economic conditions affecting donors has and may continue to depress the level of support the University receives from corporations, foundations, and individuals. Nonetheless, we remain confident that we will remain among the most successful public universities in attracting philanthropic support.

The University has benefited from recent increases in the level of federal support for research. Those increases are likely to be more modest for the foreseeable future. We do expect our research enterprise to grow going forward and to generate increases in reimbursement for overhead expenses, a major source of discretionary revenue. The additional research space that will be coming online over the next five years will facilitate and be a catalyst for continued growth in research.

While the UUHC is also well-positioned to maintain a strong financial position in the near term, ongoing revenue constraints are expected with the continued growth in managed care and fiscal pressures on employers and federal and state governments. Management believes that much of the pressures on revenue can be alleviated by growth in patient volume, increased revenues generated by the new surgical intensive care unit, and continued efforts to contain growth in expenses.

The financial markets began to anticipate the rebound in the economy during the final quarter of the fiscal year and the University's endowment pool ended the fiscal year on a very strong note. The University will continue to emphasize a long-term investment strategy that maximizes total return while managing the volatility of the portfolio and the associated impacts on the operating budget. While it is not possible to predict the ultimate results, management will be aggressive in meeting these economic uncertainties to maintain its strong financial condition.

Financial Statements

STATEMENT OF NET ASSETS | (in thousands of dollars) As of June 30

	2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2 & 4)	$252,592	$172,566
Short-term investments (Notes 2 & 4)	40,113	47,569
Receivables, net (Note 5)	190,664	193,262
Inventory	23,440	21,047
Other assets (Note 6)	12,338	9,142
Total current assets	519,147	443,586
Noncurrent Assets		
Restricted cash and cash equivalents (Notes 2 & 4)	28,048	38,214
Restricted short-term investments (Notes 2 & 4)	635	1,231
Investments (Notes 3 & 4)	277,472	255,381
Restricted investments (Notes 3 & 4)	201,569	195,525
Receivables, net (Note 5)	23,940	26,656
Restricted receivables, net (Note 5)	3,900	9,728
Donated property held for sale	2,816	2,784
Other assets (Note 6)	19,633	26,086
Capital assets, net (Note 7)	1,024,498	1,011,027
Total noncurrent assets	1,582,511	1,566,632
Total assets	2,101,658	2,010,218
LIABILITIES		
Current Liabilities		
Accounts payable	61,150	51,482
Accrued payroll	41,564	43,167
Compensated absences & postemployment benefits (Note 1)	3,815	3,730
Deferred revenue (Note 9)	19,107	21,478
Deposits and other liabilities (Note 11)	61,463	60,487
Bonds, notes, and contracts payable (Notes 14, 15, & 16)	20,870	18,336
Total current liabilities	207,969	198,680
Noncurrent Liabilities		
Compensated absences & postemployment benefits (Note 1)	26,422	25,223
Deposits and other liabilities (Note 11)	9,613	8,673
Bonds, notes, and contracts payable (Notes 14, 15, & 16)	312,346	328,132
Total noncurrent liabilities	348,381	362,028
Total liabilities	556,350	560,708
NET ASSETS		
Invested in capital assets, net of related debt	692,717	666,452
Restricted for		
Nonexpendable	207,450	200,551
Expendable	272,044	261,251
Unrestricted	373,097	321,256
Total net assets	$1,545,308	$1,449,510

The accompanying notes are an integral part of these financial statements

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS | (in thousands of dollars) For the Years Ended June 30

	2003	2002
OPERATING REVENUES AND EXPENSES		
Revenues		
Tuition and fees (Note 1)	$ 107,796	$ 96,620
Patient services (Note 1)	620,460	581,686
Federal grants and contracts	187,484	169,588
State and local grants and contracts	10,749	16,855
Nongovernmental grants and contracts	64,324	74,531
Sales and services (Note 1)	291,039	250,164
Auxiliary enterprises (Note 1)	63,508	57,111
Other operating revenues	89,899	89,204
Total operating revenues	1,435,259	1,335,759
Expenses		
Compensation and benefits	833,590	792,061
Scholarships and fellowships	17,541	14,931
Utilities	19,627	16,898
Depreciation and amortization	90,062	92,700
Other operating expenses	675,208	685,197
Total operating expenses	1,636,028	1,601,787
Operating loss	(200,769)	(266,028)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	227,821	237,169
Gifts	27,482	36,554
Investment income (loss)	27,338	(4,486)
Interest	(17,692)	(19,121)
Other nonoperating expenses	(3,608)	(2,604)
Total nonoperating revenues	261,341	247,512
Gain (loss) before capital and permanent endowment revenue	60,572	(18,516)
Capital appropriations	7,730	36,107
Capital grants and gifts	20,322	6,069
Additions to permanent endowments	7,174	16,287
Total capital and permanent endowment revenue	35,226	58,463
Increase in net assets	95,798	39,947
NET ASSETS		
Net assets - beginning of year, restated (Note 1)	1,449,510	1,409,563
Net assets - end of year	$1,545,308	$1,449,510

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS | (in thousands of dollars) For the Years Ended June 30

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees	$ 111,245	$ 87,026
Receipts from patient services	625,966	584,170
Receipts from grants and contracts	260,264	248,414
Receipts from auxiliary and educational services	353,159	307,830
Collection of loans to students	7,893	5,394
Payments to suppliers	(684,303)	(707,113)
Payments for personal services	(833,909)	(784,730)
Payments for scholarships/fellowships	(17,541)	(14,931)
Loans issued to students	(6,988)	(5,377)
Other	86,931	121,807
Net cash used by operating activities	(97,283)	(157,510)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	227,821	237,169
Gifts		
Endowment	7,206	16,575
Nonendowment	27,949	37,549
Other	(3,931)	(3,829)
Net cash provided by noncapital financing activities	259,045	287,464
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		51,567
Capital appropriations	7,730	12,588
Gifts	26,176	16,083
Purchase of capital assets	(95,515)	(91,545)
Principal paid on capital debt	(21,376)	(39,561)
Interest paid on capital debt	(17,263)	(17,895)
Net cash used by capital and related financing activities	(100,248)	(68,763)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	181,624	98,068
Receipt of interest on investments	22,727	24,130
Purchase of investments	(196,005)	(117,274)
Net cash provided by investing activities	8,346	4,924
Net increase in cash	69,860	66,115
Cash - beginning of year	210,780	144,665
Cash - end of year	$ 280,640	$ 210,780

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS (continued) | (in thousands of dollars) For the Years Ended June 30

	2003	2002
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	$ (200,769)	$ (266,028)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation and amortization	90,062	92,700
Change in assets and liabilities		
Receivables, net	3,666	(11,941)
Inventory	(2,393)	(1,167)
Other assets	3,258	(1,013)
Accounts payable	9,668	5,687
Accrued payroll	(1,603)	2,710
Compensated absences & postemployment benefits	1,284	4,621
Deferred revenue	(2,372)	(13,229)
Deposits and other liabilities	1,916	30,150
Net cash used by operating activities	$ (97,283)	$ (157,510)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital leases	$ 7,974	$ 7,258
Donated property and equipment	5,579	9,099
Annuity and life income	106	
Decrease in fair value of investments	6,384	(28,077)
Total noncash investing, capital, and financing activities	$20,043	$(11,720)

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

- UURF is a not-for-profit corporation governed by a board of directors who are affiliated with the University with the exception of one. The operations of UURF include the leasing and the administration of Research Park (a research park located on land owned by the University), the leasing of certain buildings, and the commercial development of patents and products developed by University personnel. The fiscal year end for UURF is June 30. Other independent auditors audited UURF and their report, dated August 22, 2003, has been issued under separate cover.

- ARUP is a for-profit corporation that provides clinical laboratory services to medical centers, hospitals, clinics and other clinical laboratories throughout the United States, including UUHC. ARUP contracts with the Department of Pathology of the University of Utah School of Medicine to provide pathology consulting services. Through June 30, 2002, ARUP was a wholly owned subsidiary of Associated University Pathologists (AUP), a not-for-profit component unit of the University. Effective July 1, 2002, AUP was dissolved and ARUP became a component unit of the University. The Articles of Dissolution Act of AUP assigned all of AUP's rights, title and interest to the University. The fiscal year end for ARUP is June 30. Other independent auditors audited ARUP and their report, dated August 19, 2003, has been issued under separate cover.

All Governmental Accounting Standards Board (GASB) pronouncements and all applicable Financial Accounting Standards Board pronouncements are applied by UURF and AUP in the accounting and reporting of their operations.

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, Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, and required by GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities. When both restricted and unrestricted resources are available, such resources are spent and tracked at the discretion of the department within the guidelines of donor restrictions.

Investments are recorded at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment revenue. The University distributes earnings from pooled investments based on the average daily investment of each participating account or for endowments, distributed according to the University's spending policy.

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

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

In accordance with GASB Statement No. 34, certain expenses are netted against revenues as allowances. The following schedule presents revenue allowances for the years ended June 30, 2003 and 2002:

Revenue	2003	2002
Tuition and fees	$ 9,312,966	$ 8,524,899
Patient services	27,116,568	24,214,309
Sales and services	9,428	13,933
Auxiliary enterprises	448,422	213,236

C. Inventories

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

D. Research and Development Costs

Research and development costs of ARUP are expensed as incurred. These costs, for the year ended June 30, 2003, were approximately $5,865,000.

E. Compensated Absences & Postemployment Benefits

Employees' vacation leave is accrued at a rate of eight hours each month for the first five years and increases to a rate of 16.67 hours each month after fifteen years of service. There is no requirement to use vacation leave, but a maximum of thirty days plus one-year accrual may be carried forward at the beginning of each calendar year. Employees are reimbursed for unused vacation leave upon termination and vacation leave is expended when used or reimbursed. The liability for vacation leave at June 30, 2003, was approximately $27,376,000.

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

In addition, the University provides postemployment benefits, as approved by the Board of Trustees, for those employees who have attained the age of 60 with at least fifteen years of service and elect the University's early retirement option. Currently, 101 eligible employees have elected to take the early retirement option. The University pays each early retiree an annual amount equal to the lesser of 20.00% of the retiree's final salary or their estimated social security benefit, as well as health care and life insurance premiums until the employee reaches the age of 65. The funding for these postemployment benefits is provided on a pay-as-you-go basis. For the year ended June 30, 2003, these expenditures were approximately $1,410,000.

F. Construction

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

G. Accounting Changes

Effective July 1, 2001, the University implemented GASB Statements No. 34 & 35 which require the University to make certain changes in accounting principles, specifically (1) recording depreciation, and (2) reporting deferred revenue for contracts and grants. Accordingly, the University has made a one-time adjustment to reduce beginning net assets for the cumulative effect of these changes in the amount of $677,043,005 for fiscal year 2002. In addition, GASB Statements No. 37, 38, & 39 were also implemented which amend GASB Statement No. 34, require certain additional note disclosures, and provide guidance in determining whether an organization is a component unit and how it should be reported in the University's financial report.

Also, certain amounts for fiscal year 2002 have been reclassified for comparability which includes adjustments for construction of a building which has been determined not to be an asset of the University. As a result, beginning net assets has been reduced in the amount of approximately $16,784,000 and $1,225,000 for the years ended June 30, 2003 and 2002, respectively.

H. Disclosures

The footnotes related to the financial statements for the fiscal year ended June 30, 2002 have not been repeated in this report but are 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 and cash float from outstanding checks are invested principally in short-term investments that conform to the provisions of the Utah Code. It is the practice of the University that the investments ordinarily be held to maturity at which time the par value of the investments will be realized.

The Utah State Treasurer's Investment Pool (Pool) is invested in accordance with the State Money Management Act. The State Money Management Council provides regulatory oversight for the Pool. The fair value of the Pool investments is approximately the same as the stated value of the pool shares at June 30, 2003.

At June 30, 2003, cash and cash equivalents and short-term investments consisted of:

CASH AND CASH EQUIVALENTS	
Cash	$ 9,888,816
Money market funds	20,372,122
Time deposits	5,035,405
Utah State Treasurer's Investment Pool	245,343,771
Total (fair value)	$280,640,114

SHORT-TERM INVESTMENTS	
Obligations of the U.S. Government and its agencies	$40,747,892
Total (fair value)	$40,747,892

3. INVESTMENTS

Funds available for investment are pooled to maximize return and minimize administrative cost, except for funds that are authorized by the University administration to be separately invested or which are separately invested to meet legal or donor requirements. Investments received as gifts are recorded at market or appraised value on the date of receipt. Other investments are also recorded at fair value.

UURF receives, in exchange for patent rights, common stock of newly organized companies acquiring these patents. Inasmuch as the stock is ordinarily not actively traded, the fair value is ordinarily not ascertainable and any realization from the sale of the stock is often uncertain. Therefore, prior to July 1, 1997, such stock is recorded by UURF at a nominal value. Effective July 1, 1997, UURF adopted GASB Statement No. 31. Accordingly, those stocks that are publicly traded are recorded at their fair value on June 30, 2003.

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

According to the Uniform Management of Institutional Funds Act, Section 13-29 of the Utah Code, the governing board may appropriate for expenditure for the purposes for which an endowment is established, as much of the net appreciation, realized and unrealized, of the fair value of the assets of an endowment over the historic dollar value as is prudent under the facts and circumstances prevailing at the time of the action or decision.

The endowment income spending policy at June 30, 2003, is 4% of the twelve quarter moving average of the market value of the endowment pool. The spending policy is reviewed periodically and any necessary changes are made.

The amount of net appreciation on investments of donor-restricted endowments that were available for authorization for expenditure at June 30, 2003, was approximately $11,723,000. The net appreciation is a component of restricted, expendable net assets.

At June 30, 2003, the investment portfolio composition was as follows:

Obligations of the U.S. Government and its agencies	$158,930,161
Mutual funds	295,706,609
Common and preferred stocks	24,404,024
Total (fair value)	$479,040,794

4. DEPOSITS AND INVESTMENTS

University investments are governed by the State Money Management Act, Section 51-7 of the Utah Code, and the rules of the State Money Management Council. All securities purchased or held and all evidence of deposits and investments must be in the custody of the University or deposited with a qualified agent, bank, or trust company. Investment transactions may only be conducted through qualified depositories or certified dealers.

Statutes authorize the University to invest in deposits of qualified Utah depositories; deposits of permitted out-of-state depositories; repurchase agreements; commercial paper and short-term corporate obligations meeting certain rating criteria; bankers' acceptances; obligations of the U.S. Government and certain agencies or instrumentalities; bonds of any political subdivision of the State of Utah; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Treasurer's Investment Pool.

Statutes also authorize the University to invest its gift funds according to the rules of the State Money Management Council. Those rules allow the University to invest its gift funds in any of the above investments or any of the following subject to satisfying certain criteria; professionally managed commingled investment funds; mutual funds, common stock, convertible preferred stock or convertible bonds; and corporate bonds or debentures.

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

A. Deposits

At June 30, 2003, the carrying amounts of the University's deposits and bank balances were $28,167,008 and $45,140,586, respectively. The bank balances of the University were insured for $353,282, by the Federal Deposit Insurance Corporation; the remaining deposits were uninsured and uncollateralized and were held by a qualified depository as defined by the State Money Management Act. The State of Utah does not require collateral on deposits. However, the State Commissioner of Financial Institutions monitors financial institutions monthly and establishs limits for deposit of public money.

B. Investments

The following table provides information about the credit and market risks associated with the University's investments, as defined by and in accordance with GASB Statement No. 3, which requires investments to be categorized as follows:

Category 1. Investments that are insured or registered or for which the securities are held by the University or its agent in the University's name.

Category 2. Uninsured and unregistered investments for which the securities are held by the counterparty's (the issuer or the party acting as broker or dealer) trust department or agent in the University's name.

Category 3. Uninsured and unregistered investments for which the securities are held by the counterparty (the issuer or the party acting as broker or dealer) or by its trust department or agent which are not held in the University's name. CHART

	Category			Fair
	1	2	3	Value
Obligations of the U.S. Government				
and its agencies	$ 97,650,750	$ 86,827,861	$ 15,199,442	$ 199,678,053
Common and preferred stocks	12,573,230	11,830,794		24,404,024
	$ 110,223,980	$ 98,658,655	$ 15,199,442	224,082,077
Money market funds				6,701,232
State Treasurer's Investment Pool				245,343,771
Mutual funds				295,706,609
Total investments				$ 771,833,689

5. RECEIVABLES

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

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

The following schedule presents receivables at June 30, 2003, including $23,940,039 of noncurrent loans receivable:

Accounts	$ 215,424,033
Loans	31,186,591
Pledges	8,316,519
Interest	2,350,950
	257,278,093
Less allowances for bad debt	(38,773,468)
Receivables, net	$ 218,504,625

6. DEFERRED CHARGES AND OTHER ASSETS

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

7. CAPITAL ASSETS

Buildings; infrastructure and improvements, which includes roads, curbs and gutters, streets and sidewalks, and lighting systems; land; equipment; and library materials are valued at cost at the date of acquisition or at fair market value at the date of donation in the case of gifts. During fiscal year 2003, the capitalization limit for buildings, infrastructure and improvements, and additions to existing assets increased to $50,000. Equipment is capitalized when acquisition costs exceed $5,000. All costs incurred in the acquisition of library materials are capitalized. The University acquires some of its equipment from inventories of government excess property for which the University pays a minimal processing charge. Such property is valued at the original cost paid by the governmental entity. All campus land acquired through grants from the U.S. Government has been valued at $3,000 per acre. Other land acquisitions have been valued at original cost or fair market value at the date of donation in the case of gifts. Buildings, improvements, land, and equipment of component units have been valued at cost at the date of acquisition.

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

At June 30, 2003, the University had outstanding commitments for the construction and remodeling of University buildings of approximately $32,807,000.

Capital assets at June 30, 2003, consist of:

	Beginning Balance	Ending Additions	Retirements	Balance
Buildings	$ 952,392,178	$ 77,967,168	$ 10,953	$ 1,030,348,393
Infrastructure and improvements	93,407,796	14,607,031	401,577	107,613,250
Land	17,267,453			17,267,453
Equipment	398,239,274	54,547,805	29,432,085	423,354,994
Library materials	129,808,956	5,505,493	243,847	135,070,602
Art and special collections	26,101,148	2,601,254		28,702,402
Construction in progress	117,269,261	41,156,027	89,912,591	68,512,697
Total cost	1,734,486,066	196,384,778	120,001,053	1,810,869,791
Less accumulated depreciation				
Buildings	323,438,724	37,558,436	7,652	360,989,508
Infrastructure and improvements	53,700,713	4,775,230	272,344	58,203,599
Equipment	280,141,722	41,163,100	25,541,029	295,763,793
Library materials	66,178,480	5,236,445		71,414,925
Total accumulated depreciation	723,459,639	88,733,211	25,821,025	786,371,825
Capital assets, net	$ 1,011,026,427	$ 107,651,567	$ 94,180,028	$ 1,024,497,966

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

The University contributes to the Utah State and School Contributory and Noncontributory and the Public Safety Noncontributory Retirement System (Systems) that are multi-employer, cost sharing, defined benefit pension plans. The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated, 1953, as amended. The Utah State Retirement Office Act provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems.

Plan members in the State and School Contributory Retirement System are required to contribute 6.00% of their annual covered salaries, all of which is paid by the University, and the University is required to contribute 5.91% 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 11.90% (including 1.50% to a 401(k) salary deferral program) and 18.94%, respectively, of plan members' annual salaries. The contribution requirements of the Systems are authorized by statute and specified by the Board and the contribution rates are actuarially determined.

TIAA-CREF provides individual retirement fund contracts with each participating employee. Benefits provided to retired employees are based on the value of the individual contracts and the estimated life expectancy of the employee at retirement. Contributions by the University to the employee's contract become vested at the time the contribution is made. Employees are eligible to participate from the date of employment and are not required to contribute to the fund. For the year ended June 30, 2003, the University's contribution to this defined contribution pension plan was 14.20% of the employees' annual salaries. The University has no further liability once contributions are made. Certain health clinic employees hired prior to November 1, 1998, were fully vested as of that date. Employees hired subsequent to November 1, 1998, are eligible to participate in the plan one year after hire date and vest after six years. The University's contribution for these health clinic employees was 3.00% of the employees' annual salaries.

The ARUP defined contribution pension and profit sharing plans provide retirement benefits for all employees who have one year of service and have worked 1,000 hours during the plan year. Employees are fully vested in both plans after five years of service. For the year ended June 30, 2003, ARUP contributed 5.00% of the employees' annual salaries (less forfeitures) to the pension plan. Contributions to the profit sharing plan are at the discretion of ARUP.

For the years ended June 30, 2003, 2002, and 2001, the University's contributions to the Systems were equal to the required amounts as follows:

9. DEFERRED REVENUE

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

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, 2003, was $40,207,201.

In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of $6,702,275 as of June 30, 2003, based on a predetermined formula. The fair value of this stock as of June 30, 2003 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, which are held in trust with an independent financial institution in compliance with Medicare reimbursement regulations. Based on an analysis prepared by UUHC administration, the administration believes that the balance in the trust funds as of June 30, 2003, 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 at June 30, 2003, is based on the requirements of GASB Statement No. 10, 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 are as follows:

Estimated claims liability - beginning of year	$ 25,910,769
Current year claims and changes in estimates	83,044,792
Claim payments, including related legal and administrative expenses	(76,124,780)
Estimated claims liability - end of year	$ 32,830,781

The University has recorded the investments of the malpractice liability trust funds at June 30, 2003, 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

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

In April 2001, ARUP received 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. As a result of this ruling, ARUP eliminated its deferred tax assets and liabilities and filed for refunds of previously paid federal and state income taxes. At June 30, 2001, ARUP recorded, and subsequently collected, income taxes receivable in the amount of $4,784,792. ARUP has filed refund claims for an additional $5,484,733, which will be recorded as an income tax benefit when received.

13. HOSPITAL REVENUE

A. Net Patient Service Revenue

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

UUHC has third-party payor agreements with Medicare and Medicaid that provide for payments to UUHC at amounts different from established rates. Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to Medicaid program beneficiaries and certain outpatient services and defined capital costs related to Medicare beneficiaries are paid based on a cost reimbursement basis. Medicare reimbursements are based on a tentative rate with final settlement determined after submission of annual cost reports by UUHC and audits thereof by the Medicare fiscal intermediary.

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

B. Charity Care

UUHC maintains records to identify and monitor the level of charity care it provides. Based on established rates, the charges foregone as a result of charity during the year ended June 30, 2003, were approximately $16,024,000.

14. LEASES

A. Revenue

UURF receives lease revenues from noncancellable sublease agreements with tenants of the Research Park, from tenants occupying eight buildings owned by UURF. The lease revenue to be received from these noncancellable leases for each of the subsequent five years is $5,750,000, and for twenty years thereafter, comparable annual amounts. Most lease revenue is subject to escalation based on changes in the Consumer Price Index (CPI). Since such escalations are dependent upon future changes in the CPI, these escalations, if any, are not reflected in the minimum noncancellable lease revenues listed above.

B. Commitments

The University leases buildings and office and computer equipment. Capital leases are valued at the present value of future minimum lease payments. Assets associated with the capital leases are recorded as equipment together with the related long-term obligations. Capital leases of ARUP are guaranteed by the University. Operating leases and related assets are not recorded in the Statement of Net Assets. Payments are recorded as expenditures when incurred and amount to approximately $9,287,000 and $9,388,000 for the University and $4,657,000 and $4,519,000 for component units for the years ended June 30, 2003 and 2002, respectively. Total operating lease commitments for the University include approximately $6,289,000 of commitments to component units.

Included in the above component unit lease expenditures is a lease by ARUP for its principal laboratory building, under a long-term agreement, from a partnership in which one of its directors is a principal. The agreement has two five-year renewal options and includes rent increases of two percent annually in the sixth and eleventh years from the commencement of the lease. Total lease payments for the year ended June 30, 2003, were approximately $3,928,000.

The University entered into a Huntsman Cancer Institute capital sublease agreement in the amount of $16,875,000 dated November 1996 with the State of Utah, acting through its Department of Administrative Services Division of Facilities Construction and Management for the lease of the Huntsman Cancer Institute Building, located east of the University campus and adjacent to the University Hospital. The Huntsman sublease is an annually renewable lease with a final expiration date of May 2013. Annual payments begin November 1999 and range from a low of $434,000 to a high of $1,607,255. At the end of the lease, title to the Huntsman Cancer Institute Building will be transferred to the University.

Future minimum lease commitments for operating and capital leases as of June 30, 2003 are as follows:

Fiscal Year	Operating	Capital
2004	$ 13,409,430	$ 16,249,341
2005	11,981,990	12,149,289
2006	10,288,627	9,426,409
2007	8,394,745	7,475,636
2008	7,082,879	6,278,547
2009 – 2013	17,715,848	49,730,973
Thereafter		190,152
Total future minimum lease payments	$ 68,873,519	101,500,347
Amount representing interest		(21,440,230)
Present value of future minimum lease payments		$ 80,060,117

15. BONDS PAYABLE AND OTHER LONG-TERM LIABILITIES

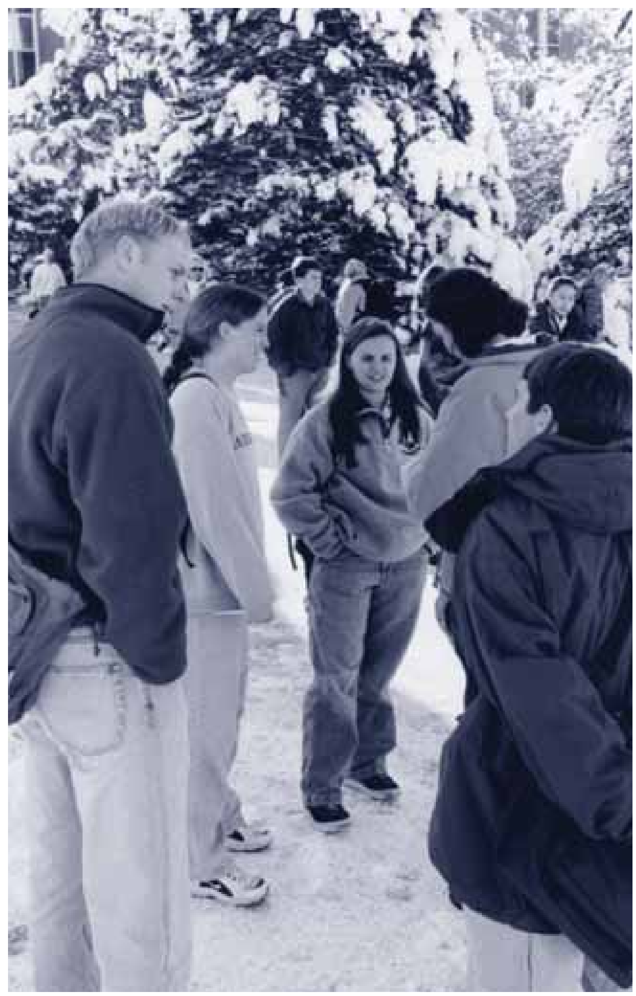
The long-term debt of the University consists of bonds payable, capital lease obligations, compensated absences, and other minor obligations.

The State Board of Regents of the State of Utah issues 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 of Utah or any other political subdivision of the State is pledged to the payment of the bonds, the distributions or other costs appertaining thereto.

In 1985, the State Board of Regents authorized the University to issue Variable Rate Demand Industrial Development Bonds (University Inn Project – 1985 Series) for the Salt Lake City Marriott – University Park Hotel, separate from the University. The bonds are payable from the revenues of the hotel and the University has no responsibility or commitment for repayment of the bonds. The outstanding balance of the bonds at June 30, 2003, is $7,400,000.

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 the Bank of Nova Scotia and is valid through July 30, 2005. The University pays a quarterly fee for the services provided by the Bank of Nova Scotia. No funds have been drawn against the standby bond purchase agreement. The interest requirement for the Series 1997A Bonds is calculated using an interest rate of 1.05%, which is the rate in effect at June 30, 2003.



The following schedule lists the outstanding bonds payable of the University at June 30, 2003:

	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2003
Auxiliary and Campus Facilities	3/1/87	2014	3.750% - 6.750%	$ 11,140,000	$ 175,000	$ 2,050,000
Research Facilities Revenue	4/1/96	2011	4.200% - 6.500%	21,050,000	1,385,703	13,351,627
Auxiliary and Campus Facilities	7/30/97	2027	Variable	52,590,000	890,000	16,390,000
Hospital Revenue Refunding	12/1/97	2006	4.750% - 5.500%	24,615,000	2,983,579	12,857,100
Hospital Revenue	6/1/98	2013	5.250% - 5.375%	25,020,000	51,411	25,685,227
Auxiliary and Campus Facilities Revenue and Refunding	7/1/98	2016	4.100% - 5.250%	120,240,000	1,457,794	120,421,071
Auxiliary and Campus Facilities	5/1/99	2014	4.000% - 4.800%	5,975,000	362,802	4,940,221
Research Facilities Revenue	7/13/00	2020	5.000% - 5.750%	17,585,000	590,548	15,665,128
Auxiliary and Campus Facilities	7/18/01	2021	3.500%- 5.125%	2,755,000	98,986	2,626,555
Hospital Revenue	8/7/01	2022	5.000%- 5.500%	26,670,000	13,014	27,049,424
Total					$ 8,008,837	$ 241,036,353

UURF has purchased three buildings with two mortgages that are guaranteed by the University. The remaining amounts of the mortgages are $6,869,395 at 8.87% interest and $3,368,639 at 7.15% interest. The mortgages will be paid off on April 1, 2020 and September 1, 2021, respectively.

The following schedule summarizes the changes in long-term liabilities for the year ended June 30, 2003:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$ 249,370,697		$ 8,334,344	$ 241,036,353	$ 8,008,837
Capital leases payable	84,709,614	$ 8,456,723	13,106,220	80,060,117	12,196,576
Notes and contracts payable	12,387,103	98,152	465,426	12,119,829	665,061
Total long-term debt	346,467,414	8,654,875	21,905,990	333,216,299	20,870,474
Compensated absences	28,953,224	7,365,263	6,081,182	30,237,305	3,814,909
Deposits & other liabilities	69,159,769	62,565,961	60,649,398	71,076,332	61,463,014
Total long-term liabilities	$ 444,580,407	$ 78,586,099	$ 88,636,570	$ 434,529,936	$ 86,148,397

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

	Payments	
Fiscal Year	Principal	Interest
2004	$ 20,870,474	$ 16,606,514
2005	17,915,778	15,677,396
2006	16,128,853	14,881,796
2007	14,976,170	14,127,534
2008	14,120,151	13,428,078
2009 – 2013	104,462,155	50,135,709
2014 – 2018	54,764,902	31,076,184
2019 – 2023	46,980,580	17,518,657
2024 – 2028	35,504,177	8,111,962
2029 – 2033	7,493,059	451,275
Total	$333,216,299	$182,015,105

16. RETIREMENT OF DEBT

In prior years, the University defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. The total principal amount of defeased bonds held in irrevocable trusts at June 30, 2003, is $4,780,000.

17. FUNCTIONAL CLASSIFICATION OF EXPENSES

The following schedule presents operating expenses by functional classification for the year ended June 30, 2003:

Function	Amount (in thousands)
Instruction	$ 199,598
Research	231,836
Public service	291,066
Academic support	62,033
Student services	16,126
Institutional support	42,608
Operation & maintenance of plant	38,020
Student aid	30,369
Other	281,738
Hospital	442,634
Total	$1,636,028

19. LITIGATION, CONTINGENCIES, AND COMMITMENTS

The University is involved in a legal action arising from the ordinary course of business. The University is vigorously contesting this matter, but as of this date it is not possible to determine the outcome of the proceedings. In the opinion of the Attorney General of the State of Utah and the University's administration, the ultimate disposition of this matter will not have a material adverse affect on the University's financial position.

The action is a suit that has been filed by the United Mine Workers of America and others, with respect to lands that are alleged to have been conveyed by the Federal Government to the State of Utah to build and maintain a hospital for miners. The plaintiffs seek certification of the suit as a class action, a declaration that a separate hospital for disabled miners is required, and that the proceeds received from the lands must be separately maintained. It also seeks a full accounting of all assets together with an order requiring the State to establish a hospital to be maintained for disabled miners.

It is not possible at this time to estimate the outcome or the financial impact an adverse ruling on this action would have upon the University.

20. SEGMENT INFORMATION

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

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

• UUHC – is comprised of the University Hospital, 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 overhead rates to grants and contracts.

The following schedule presents condensed financial information for each of the University's segments:

STATEMENT OF NET ASSETS

	Auxiliary Campus & Facility System	UUHC	Reimbursed Overhead
ASSETS			
Current assets			
Cash and cash equivalents	$(3,011,921)	$ 25,987,933	$35,954,990
Short-term investments		3,720,012	
Accounts receivable, net	1,830,662	80,145,171	5,284,288
Inventory	3,798,677	12,742,815	
Other assets	22,286	6,646,312	
Total current assets	2,639,704	129,242,243	41,239,278
Noncurrent assets			
Investments		25,138,002	
Total noncurrent assets		25,138,002	
Total assets	2,639,704	154,380,245	41,239,278
LIABILITIES			
Current liabilities			
Accounts payable	1,106,587	16,645,715	312,182
Accrued payroll		10,652,721	
Compensated absences		900,644	
Deferred revenue	658,235	49,937	
Deposits and other liabilities	874,882	22,190,777	
Total current liabilities	2,639,704	50,439,794	312,182
Noncurrent liabilities			
Compensated absences		9,068,003	
Deposits and other liabilities		6,789,592	
Total noncurrent liabilities		15,857,595	
Total liabilities	2,639,704	66,297,389	312,182
Net assets, unrestricted	$ 0	$ 88,082,856	$40,927,096

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Auxiliary Campus & Facility System	UUHC	Reimbursed Overhead
Operating Revenues and Expenses			
Revenues			
Sales and services	$52,630,996	$472,253,416	
Facilities and administrative			$53,907,547
Other operating revenues		7,313,813	
Total operating revenues	52,630,996	479,567,229	53,907,547
Expenses			
Compensation and benefits	12,453,748	211,569,680	13,921,780
Other operating expenses	29,137,825	233,986,515	22,907,186
Total operating expenses	41,591,573	445,556,195	36,828,966
Operating income	11,039,423	34,011,034	17,078,581
Nonoperating Revenues (Expenses)			
State appropriations		4,349,600	
Investment income (loss)	(12,491)	892,145	
Other nonoperating expenses		(310,283)	
Total nonoperating revenues (expenses)	(12,491)	4,931,462	
Transfers			
Mandatory transfers, out	(12,306,871)	(12,460,248)	(6,104,529)
Nonmandatory transfers, in (out)	1,279,939	(24,223,773)	(13,633,907)
Total transfers, in (out)	(11,026,932)	(36,684,021)	(19,738,436)
Increase in net assets	0	2,258,475	(2,659,855)
Net Assets			
Net assets - beginning of year	0	85,824,381	43,586,951
Net assets - end of year	$ 0	$ 88,082,856	$40,927,096

STATEMENT OF CASH FLOWS

	Auxiliary Campus & Facility System	UUHC	Reimbursed Overhead
Net cash provided (used) by			
Operating activities	$10,631,116	$ 36,208,742	$ 16,523,526
Noncapital financing activities	(11,026,932)	(32,644,704)	(19,738,436)
Investing activities	(12,491)	1,198,918	
Net increase in cash	(408,307)	4,762,956	(3,214,910)
Cash (deficit) - beginning of year	(2,603,614)	21,224,977	39,169,900
Cash (deficit) - end of year	$(3,011,921)	$ 25,987,933	$ 35,954,990

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UNIVERSITY ADMINISTRATION

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President

A. Lorris Betz
Senior Vice President for Health Sciences
Dean, School of Medicine

David W. Pershing
Senior Vice President for Academic Affairs

Arnold B. Combe
Vice President for Administrative Services

Fred C. Esplin
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Raymond F. Gesteland
Vice President for Research

Loretta F. Harper
Vice President for Human Resources

J. Michael Mattsson
Vice President for Development

Barbara H. Snyder
Vice President for Student Affairs

John K. Morris
General Counsel

FINANCIAL AND ACCOUNTING SERVICES

Jeffrey J. West
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Barbara K. Nielsen
Director of Governmental Accounting
and Support Services

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