2004 Annual Financial Report

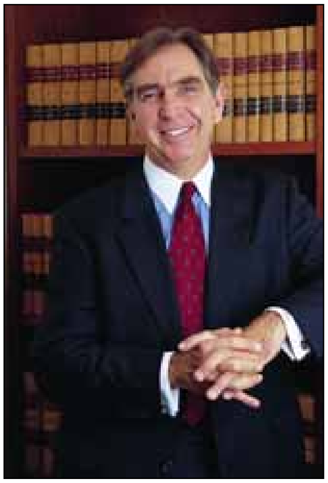
THE UNIVERSITY OF UTAH

A Component Unit of the State of Utah

THE UNIVERSITY OF UTAH

Contents

Message from the President	2 - 3
Independent State Auditor's Report	4 - 5
Management's Discussion and Analysis	6 - 17
Financial Statements	19 - 23
Statement of Net Assets	20
Statement of Revenues, Expenses, and Changes in Net Assets	21
Statement of Cash Flows	22 - 23
Notes to Financial Statements	24 - 41
Governing Boards and Officers	42



Message from the President

As the flagship institution of the Utah System of Higher Education, the University of Utah is a positive force in the intellectual, cultural, and economic lives of people and communities throughout our state. A University's greatest resource is its people—students, faculty, administrators, staff, alumni, and friends. I am excited to be associated with a community of uncommonly talented and dedicated people here at the University of Utah. The financial information presented in this report is a reflection of their collective efforts.

Despite fiscal challenges, financial results for this past year offer some reasons for optimism:

- Each of our major sources of operating revenues were up significantly over fiscal year 2003. Patient revenues climbed 8%; grants and contracts rose by 6%; tuition and fees increased 8%; and sales and services jumped 13%. This demonstrates continuing confidence by our "customers" in the programs and services we offer—whether they be patient care, post-secondary education, sponsored research or public services.

- Our endowments surpassed $300 million this fiscal year, with an overall investment return of over 16%. The growth and performance of our endowments reflect the generosity of our donors and their willingness to support the institution; and our investment management acumen, which maximizes the potential of these funds in providing much-needed resources in carrying out our mission.

As you review our financial statistics, I encourage you to also envision the countless hours spent by hundreds of dedicated people in classrooms, libraries, laboratories, clinics, and offices. These efforts provide our students a world-class education and improve the quality of life of our citizens through groundbreaking research and patient care. The financial, economic, and cultural impact that the University's presence has on our community and our state are significant and far-reaching. Some highlights might be illustrative:

- In the last 5 years, the University has received more than $1.2 billion in federal research funding, consistently ranking among the top 30 public universities in terms of federally funded research. According to Dr. Kelly Matthews, economist for Wells Fargo Bank, "the University of Utah is an essential component of Utah's economic prosperity. The ongoing success of a prestigious research university will produce huge economic benefits for the state of Utah."

- With more than 7,500 employees and an annual payroll exceeding $531 million, the Health Sciences Center is one of the state's largest employers, and contributes millions of dollars in new, net tax revenue to Utah every year. Nearly one-third of the patients at University Hospitals and Clinics come from out of state.

- The University's Research Park is home to 37 companies, housing approximately 4,500 non-university employees, and generating approximately $600 million annually in economic impact.

- Contributions to Utah's cultural life emanate from many University sources, including the Utah Museum of Fine Arts, Museum of Natural History, Red Butte Gardens & Arboretum, KUED, KUER, Pioneer Theatre Company, Gardner Hall, and Kingsbury Hall.

The University of Utah is doing more with less. State support has declined and unavoidable costs such as utilities are on the rise. As with universities across the nation, students and their parents are bearing a heavier portion of the burden through higher tuition. We are working hard to find the best solutions to these challenges. Use of technology has expanded. Collaboration has increased. Responsiveness and accountability have improved. We are determined to move forward.

It is my pleasure to convey this annual financial report and recognize the tireless efforts of dedicated faculty and skilled administrators who work hard to ensure that the financial condition of the University of Utah is not only sound, but improving. While there are certainly challenges, I am confident that the University will successfully meet them and make the most of the opportunities that are before us.

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Independent State Auditor's Report

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

We have audited the accompanying basic financial statements of the University of Utah (hereinafter referred to as the "University"), a component unit of the State of Utah, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Utah Hospital and its related institute and clinics or the University's component units, which represent approximately 22% ($504,100,000) of total assets and 41% ($736,400,000) of total revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University Hospital and the component units, is based on the reports of the other auditors. The prior year comparative information has been derived from the University's fiscal year 2003 financial statements and, in our report dated October 3, 2003, we expressed an unqualified opinion on the respective financial statements of the University.

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 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 respective financial position of the University as of June 30, 2004, and the respective 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 October 1, 2004 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Auston G. Johnson, CPA
Utah State Auditor
October 1, 2004

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, 2004, with selected comparative information for the year ended June 30, 2003. 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 28,900 students, 2,300 faculty members and more than 20,000 supporting staff. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels, through a framework of 15 schools, colleges and divisions, and contributes to the state and nation through related research and public service programs. The University also maintains a prestigious health care complex through its University of Utah Hospitals and Clinics (UUHC). The UUHC consists of three hospitals and numerous specialty clinics. The UUHC is an integral part of the University's health care system that also includes the University's School of Medicine and the Colleges of Health, Nursing, and Pharmacy. The University's health care system has a tradition of excellence in teaching, advancement of medical science and patient care, consistently ranking among the best health care systems in the western United States.

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

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

FINANCIAL HIGHLIGHTS

The University's financial position remained strong at June 30, 2004, with assets of $2.3 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 $137.4 million to $1.7 billion at June 30, 2004.

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, 2004 and 2003 in *Figure 1*.

Fiscal year 2004 revenues before change in fair value of investments increased 8.9%, or $146.9 million, while expenses increased 8.8%, or $138.6 million. This resulted in a net gain before changes in fair value of investments of $99.4 million for fiscal year 2004, and $91.1 million for fiscal year 2003.

The University invests its endowment funds to maximize total return over the long term, within an appropriate level of risk. The success of this long-term investment strategy is evidenced by returns averaging 8.7% during the past ten years.

USING THE FINANCIAL STATEMENTS

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

Revenues and expenses are categorized as operating or nonoperating and other net asset additions as capital contributions or additions to permanent endowments. Significant recurring sources of the University's revenues, including state appropriations, gifts and investment income, are considered nonoperating, as defined by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Nonoperating revenues totaled $309.5 million and $282.6 million for the years ended June 30, 2004 and 2003, respectively. Nonoperating expenses, which include interest expense, totaled $16.5 million and $21.3 million for the years ended June 30, 2004 and 2003, 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, 2004 and 2003, scholarship and fellowship expenses totaled $21.1 million and $17.5 million, respectively. In addition, scholarships and fellowships in the amount of $12.1 million and $9.4 million for the years ended June 30, 2004 and 2003, are reported as a reduction of tuition and fees and auxiliary enterprises revenue.

Figure 1.	2004	2003
	(in thousands)	
Total revenues before change in fair value of investments	$1,807,007	$1,660,146
Total expenses	1,707,576	1,568,999
Increase in net assets before change in fair value of investments	99,431	91,147
Increase in fair value of investments	37,994	6,384
Increase in net assets	$ 137,425	$ 97,531

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, 2004 and 2003 as shown in *Figure 2.*

A review of the University's Statement of Net Assets at June 30, 2004 and 2003, 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 4.9 months of total operating expenses (excluding depreciation). Current investments for capital and student loan

Figure 2.

	2004	2003
	(in thousands)	
Current assets	$ 652,611	$ 514,731
Noncurrent assets		
Endowments and other investments	532,016	507,724
Receivables	56,669	32,256
Capital assets, net	1,025,401	1,024,498
Other	20,300	22,449
Total assets	2,286,997	2,101,658
Current liabilities	251,754	206,236
Noncurrent liabilities	350,777	348,381
Total liabilities	602,531	554,617
Net assets	$1,684,466	$1,547,041

activities totaled $138.0 million at June 30, 2004 and $92.5 million at June 30, 2003. Receivables increased slightly from $186.2 million at June 30, 2003 to $188.1 million at June 30, 2004.

Current liabilities consist primarily of trade accounts, accrued compensation, deposits, and other liabilities, which totaled $251.8 million at June 30, 2004, as compared to $206.2 million at June 30, 2003. Current liabilities also include deferred revenue, and the current portion of bonds payable. Total current liabilities increased $45.5 million during fiscal year 2004.

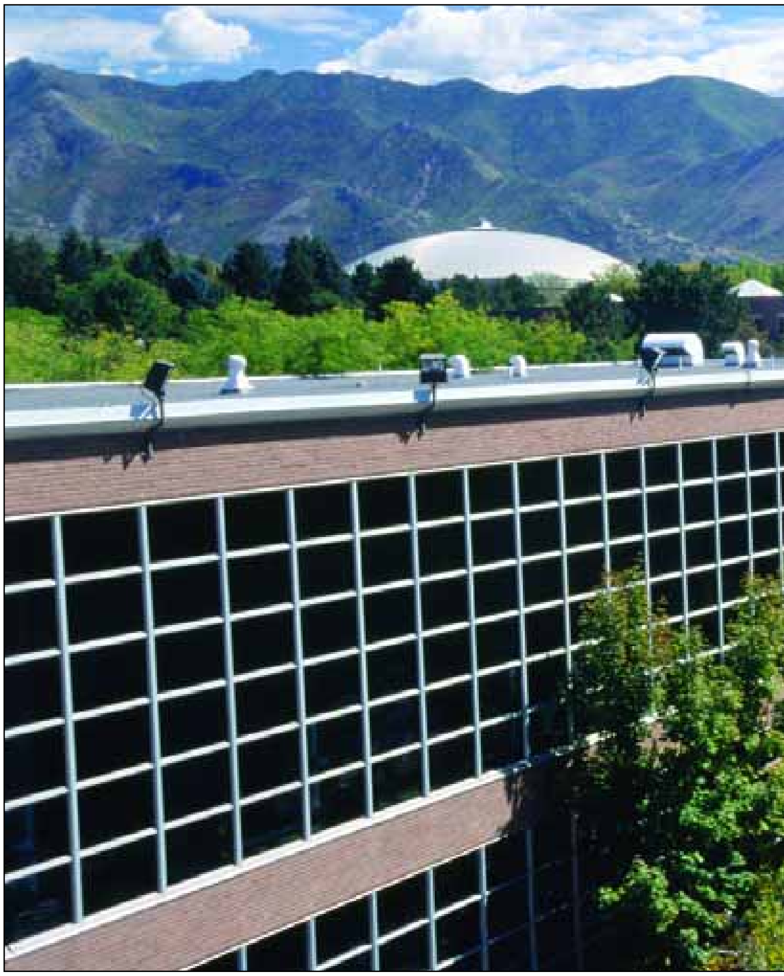
ENDOWMENT AND SIMILAR INVESTMENTS

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 16.9% for the year ended June 30, 2004 compared to 4.1% for the year ended June 30, 2003. These results reflect the heavy weighting of equities in the asset allocation of the pool and compare favorably to broad indexes such as the S&P 500 and Lehman Brothers Aggregate Bond (19.1% and 0.3% gain, respectively, for fiscal year 2004). The net gain on the endowment pool for the year ended June 30, 2004 totaled $38.5 million compared to a gain of $4.6 million for the year ended June 30, 2003.

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, 2004, the spending policy was 4.0% of the twelve quarter moving average of unit market values. Endowment pool income used in operations was $10.4 million in fiscal year 2004. The amount allocated to operations exceeded dividends and interest earned on pool investments by $5.3 million.

Since endowment funds are invested for long-term results rather than short-term annual returns, it is important to reflect on the longer investment horizon. Over the past ten years, the University's endowment pool has earned an average total return of 8.7%, paid out an average of 4.3%, and reinvested the balance representing an average of 4.4%. The reinvested funds enabled higher balances, thus yielding greater returns to keep pace with inflation of program expenses. Endowments provide crucial support for the University's quality academic programs and accessibility to these programs for all students.

Gifts to the endowment funds at the University totaled $11.4 million and $7.2 million for the fiscal years 2004 and 2003, respectively.

CAPITAL AND DEBT ACTIVITIES

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

Capital additions totaled $133.2 million in fiscal year 2004, as compared to $196.4 million in fiscal year 2003. 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, 2004, totaled $75.7 million that includes projects in numerous buildings across the campus. Significant projects include: student housing facilities; expansion of the University Hospital for critical care facilities; additional ophthalmologic facilities; and additional medical laboratories.

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

Bonds payable totaled $243.6 million and $241.0 million at June 30, 2004 and 2003, respectively. A new bond was issued in fiscal year 2004 to renovate medical research facilities. All other 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, 2004, the University has 3.6 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 $74.3 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.

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, 2004 and 2003 is shown in *Figure 3*.

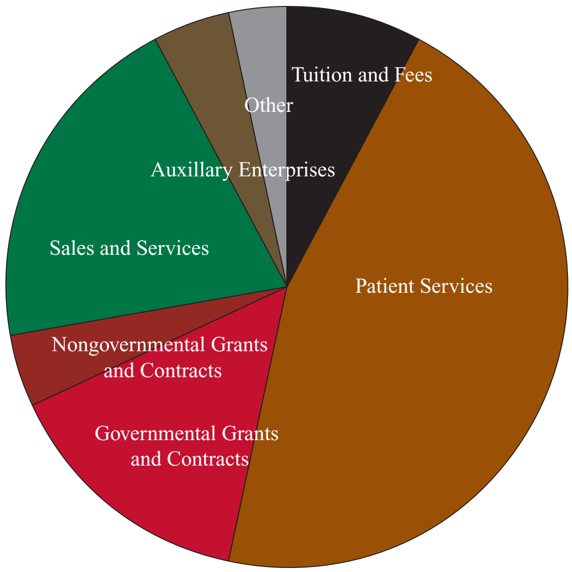
One of the University's greatest strengths is the diverse streams of revenues which supplement its student tuition and fees, including voluntary private support from individuals, foundations, and corporations, along with government and other grants and contracts, state appropriations, and investment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

Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 34. The following page shows graphic illustrations of revenues by source (both operating and nonoperating), which were used to fund the University's operations for the year ended June 30, 2004 (amounts are presented in thousands of dollars).

Figure 3.

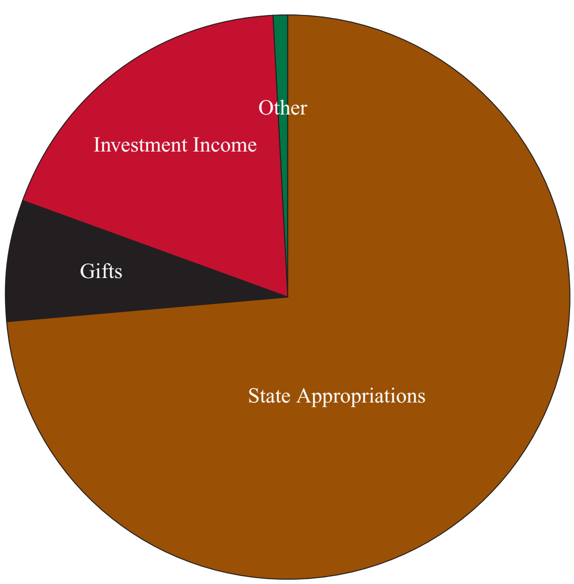
	2004	2003
	(in thousands)	
Operating revenues		
Tuition and fees	$ 116,714	$ 107,796
Patient services	669,851	620,460
Grants and contracts	278,750	262,557
Sales and services	293,054	258,314
Auxiliary enterprises	63,781	63,508
Other	47,433	36,028
Total operating revenues	1,469,583	1,348,663
Operating expenses	1,691,073	1,547,699
Operating loss	(221,490)	(199,036)
Nonoperating revenues (expenses)		
State appropriations	227,835	227,821
Gifts	22,123	27,482
Investment income	57,449	27,338
Interest expense	(16,503)	(17,692)
Other revenues (expenses)	2,102	(3,608)
Net nonoperating revenues	293,006	261,341
Capital appropriations	11,600	7,730
Capital and endowment grants and gifts	54,309	27,496
Total capital and endowment revenues	65,909	35,226
Increase in net assets	137,425	97,531
Net assets - beginning of year, restated	1,547,041	1,449,510
Net assets - end of year	$1,684,466	$1,547,041

OPERATING REVENUES



Tuition and Fees	$116,714
Patient Services	$669,851
Governmental Grants & Contracts	$214,866
Nongovernmental Grants & Contracts	$63,884
Sales and Services	$293,054
Auxiliary Enterprises	$63,781
Other	$47,433

NONOPERATING REVENUES



State Appropriations	$227,835
Gifts	$22,123
Investment Income	$57,449
Other	$2,102

The University continues to face significant financial pressure, particularly in the areas of compensation and benefits, which represent 53.1% 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 $8.9 million, or 8.3% to $116.7 million in fiscal year 2004. State appropriations of $227.8 million in fiscal year 2004 is virtually unchanged from 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 19.5%, or $5.4 million, to $22.1 million in fiscal year 2004.

Revenues for grants and contracts increased 6.2%, or $16.2 million, to $278.8 million in fiscal year 2004, 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 8.0% or $49.4 million to $669.9 million in fiscal year 2004. 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 and moderate price increases for patient services. In addition, UUHC has continued to experience increased demand for specialty services provided by outpatient clinics and has also opened a new primary care clinic to serve the growing population base in the market.

Net investment income for the years ended June 30, 2004 and 2003, consisted of the following components:

	2004	2003
	(in thousands)	
Interest and dividends, net	$19,455	$20,954
Net increase in fair value of investments	37,994	6,384
Net investment income	$57,449	$27,338

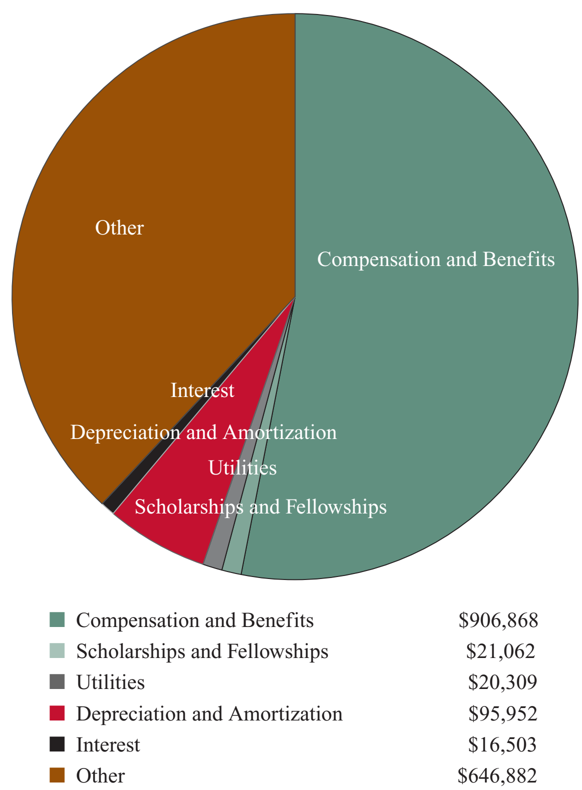
Net investment income totaled $57.4 million in fiscal year 2004, as compared to $27.3 million in fiscal year 2003, which is a net increase of $30.1 million. Moreover, as discussed previously, the University's endowment investment policies are designed to maximize long-term total return while its income distribution policies are designed to preserve the value of the endowment portfolio and to generate a predictable stream of spendable income. The income distribution from the University's endowment portfolio for the support of operating activities, in accordance with the University's spending policy, totaled $10.4 million in fiscal year 2004, as compared to $9.2 million in fiscal year 2003. In addition, in fiscal year 2004, $4.2 million was returned to endowment principal.

Capital appropriations received from the State in fiscal year 2004, which totaled $11.6 million, funded a portion of building renovation projects. Other revenues include capital grants and gifts and additions to permanent endowments totaling $54.3 million for the fiscal year ending June 30, 2004.

A comparative summary of the University's expenses for the years ended June 30, 2004 and 2003 follows:

	2004	2003
	(in thousands)	
Operating		
Compensation and benefits	$ 906,868	$ 833,590
Scholarships and fellowships	21,062	17,541
Utilities	20,309	19,627
Depreciation and amortization	95,952	90,062
Other	646,882	586,879
Total operating	1,691,073	1,547,699
Nonoperating		
Interest and other	16,503	21,300
Total expenses	$1,707,576	$1,568,999

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 8.8%, or $73.3 million, to $906.9 million in fiscal year 2004. Of this increase, compensation increased 7.5%, or $49.0 million, as a result of annual increases and the hiring of additional employees. The related employee benefits increased 13.6% or $24.3 million in fiscal year 2004, due primarily to increased medical benefits paid by the University.

Other operating expenses increased 10.2%, or $60.0 million, to $646.9 million in fiscal year 2004.

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, 2004 and 2003 follows:

	2004	2003
	(in thousands)	
Instruction	$ 216,498	$ 195,973
Research	200,304	193,702
Public service	307,298	282,723
Academic support	61,481	61,984
Student services	16,205	16,119
Institutional support	49,725	42,563
Operations and maintenance of plant	41,332	38,020
Student aid	27,838	26,701
Other	328,810	272,267
Hospital	441,582	417,647
Total operating expenses	$1,691,073	$1,547,699

Instruction, research, and public service expenses increased 7.7%, or $51.7 million, to $724.1 million in fiscal year 2004. Academic and institutional support expenses increased 6.4%, or $6.7 million, to $111.2 million in fiscal year 2004.

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 $173.9 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.

CURRENT FACTORS HAVING PROBABLE FUTURE FINANCIAL SIGNIFICANCE

As can be seen by an examination of the revenues, and as referred to in the Introduction of this Management's Discussion and Analysis, the growth enjoyed during these past few years is primarily being driven by UUHC, along with the component units UURF and ARUP. It is not anticipated that this pattern will change in the future. These areas will probably continue to comprise a larger and larger proportion of total University revenues. While the academic colleges and related services operating on the main campus are, for the most part, financially healthy, they rely on state appropriations as a major source of support and are therefore limited in how much they can grow their core programs.

Increasingly, the core teaching function of the University is becoming more dependent on non-state sources of financial support, such as student tuition and private donations. These resources are also growing, but such growth is tempered by the economy. While the State is rebounding from the recent recession, it may be several years before it expands to a point where major new funds can flow to higher education. Until then, continuing support from the State is anticipated, most probably in line with an annual growth factor equivalent to inflation. This translates into state appropriations that will continue to comprise a smaller and smaller proportion of total University revenues.

On the expense side, increasing costs of employee health insurance and utilities are the main concern. These cost categories are rising dramatically faster than the pace of inflation. Given the outlook for state appropriations, the University will continue to emphasize cost containment and fiscal prudence wherever possible. Conservative financial philosophies and practices have served the institution well in the past and should continue to do so. The institution has traditionally managed its resources capably, and this fact is reflected in its healthy financial ratios and in its strong bond ratings. This financial strength and stability will serve the University well as we anticipate future growth in the infrastructure and the attendant need to go out into the bond market for financing capital projects.

Finally, the University welcomed a new president on August 1, 2004. Strengthening the working relationship with the State's executive and legislative leadership is a high priority, with the intent of improving the University's advocacy and support when it comes to funding and related issues. In addition, Utah will be electing a new governor in November 2004, and both candidates have made education one of the key focuses of their campaigns. Clearly, the State and the University are entering into a new era - with new leadership and new opportunities to address current and future issues with the energy and enthusiasm that change often brings.

Financial Statements

THE UNIVERSITY OF UTAH | Statement of Net Assets

(in thousands of dollars)

As of June 30

	2004	[For Comparison Only] 2003
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2 & 4)	$ 405,614	$ 252,592
Short-term investments (Notes 2 & 4)	25,100	40,113
Receivables, net (Note 5)	188,073	186,248
Inventory	25,435	23,440
Other assets (Note 6)	8,389	12,338
Total current assets	652,611	514,731
Noncurrent Assets		
Restricted cash and cash equivalents (Notes 2 & 4)	48,895	28,048
Restricted short-term investments (Notes 2 & 4)	350	635
Investments (Notes 3 & 4)	251,471	277,472
Restricted investments (Notes 3 & 4)	231,300	201,569
Restricted receivables, net (Note 5)	56,669	32,256
Donated property held for sale	3,155	2,816
Other assets (Note 6)	17,145	19,633
Capital assets, net	1,025,401	1,024,498
Total noncurrent assets	1,634,386	1,586,927
Total assets	2,286,997	2,101,658
LIABILITIES		
Current Liabilities		
Accounts payable	79,456	59,417
Accrued payroll	52,460	41,564
Compensated absences & postemployment benefits (Note 1)	3,838	3,815
Deferred revenue (Note 9)	29,391	19,107
Deposits & other liabilities (Notes 11 & 15)	66,576	61,463
Bonds, notes and contracts payable (Notes 14, 15, & 16)	20,033	20,870
Total current liabilities	251,754	206,236
Noncurrent Liabilities		
Compensated absences & postemployment benefits (Note 1)	28,522	26,422
Deposits & other liabilities (Notes 11 & 15)	11,732	9,613
Bonds, notes and contracts payable (Notes 14, 15, & 16)	310,523	312,346
Total noncurrent liabilities	350,777	348,381
Total liabilities	602,531	554,617
NET ASSETS		
Invested in capital assets, net of related debt	706,000	692,717
Restricted for:		
Nonexpendable:		
Instruction	84,043	68,471
Research	26,389	22,715
Public service	34,843	27,851
Academic support	27,580	23,424
Scholarships	71,049	61,330
Other	3,941	3,659
Expendable:		
Instruction	9,389	8,695
Research	110,994	107,247
Public service	15,528	18,739
Academic support	37,341	33,811
Institutional support	19,875	21,334
Scholarships	18,520	3,625
Loans	35,981	36,081
Debt service	14,897	14,842
Capital additions	54,708	22,115
Other	4,082	5,555
Unrestricted	409,306	374,830
Total net assets	$1,684,466	$1,547,041

The accompanying notes are an integral part of these financial statements

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

(in thousands of dollars)

For the Years Ended June 30

	2004	[For Comparison Only] 2003
OPERATING REVENUES AND EXPENSES		
Revenues:		
Tuition and fees (Note 1)	$ 116,714	$ 107,796
Patient services (Note 1)	669,851	620,460
Federal grants and contracts	202,035	187,484
State and local grants and contracts	12,831	10,749
Nongovernmental grants and contracts	63,884	64,324
Sales and services (Note 1)	293,054	258,314
Auxiliary enterprises (Note 1)	63,781	63,508
Other operating revenues	47,433	36,028
Total operating revenues	1,469,583	1,348,663
Expenses:		
Compensation and benefits	906,868	833,590
Scholarships and fellowships	21,062	17,541
Utilities	20,309	19,627
Depreciation and amortization	95,952	90,062
Other operating expenses	646,882	586,879
Total operating expenses	1,691,073	1,547,699
Operating loss	(221,490)	(199,036)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	227,835	227,821
Gifts	22,123	27,482
Investment income	57,449	27,338
Interest	(16,503)	(17,692)
Other nonoperating revenues (expenses)	2,102	(3,608)
Total nonoperating revenues	293,006	261,341
Gain before capital and permanent endowment additions	71,516	62,305
Capital appropriations	11,600	7,730
Capital grants and gifts	42,920	20,322
Additions to permanent endowments	11,389	7,174
Total capital and permanent endowment additions	65,909	35,226
Increase in net assets	137,425	97,531
NET ASSETS		
Net assets - beginning of year, restated (Note 1)	1,547,041	1,449,510
Net assets - end of year	$1,684,466	$1,547,041

THE UNIVERSITY OF UTAH | Statement of Cash Flows

(in thousands of dollars)

For the Years Ended June 30

	2004	[For Comparison Only] 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees	$124,440	$ 111,245
Receipts from patient services	660,418	625,966
Receipts from contracts and grants	278,583	260,264
Receipts from auxiliary and educational services	358,094	353,159
Collection of loans to students	8,893	7,893
Payments to suppliers	(642,710)	(630,432)
Payments for personal services	(893,850)	(833,909)
Payments for scholarships/fellowships	(21,062)	(17,541)
Loans issued to students	(9,546)	(6,988)
Other	59,053	33,060
Net cash used by operating activities	(77,687)	(97,283)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	227,835	227,821
Gifts		
Endowment	11,287	7,206
Nonendowment	19,636	27,949
Other	2,079	(3,931)
Net cash provided by noncapital financing activities	260,837	259,045
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	9,724	
Capital appropriations	11,600	7,730
Gifts	25,217	26,176
Purchase of capital assets	(88,378)	(95,515)
Principal paid on capital debt	(20,857)	(21,376)
Interest paid on capital debt	(16,486)	(17,263)
Net cash used by capital and related financing activities	(79,180)	(100,248)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	265,065	181,624
Receipt of interest on investments	20,633	22,727
Purchase of investments	(215,799)	(196,005)
Net cash provided by investing activities	69,899	8,346
Net increase in cash	173,869	69,860
Cash - beginning of year	280,640	210,780
Cash - ending of year	$454,509	$280,640

THE UNIVERSITY OF UTAH | Statement of Cash Flows

(in thousands of dollars)

For the Years Ended June 30

	2004	[For Comparison Only] 2003
RECONCILIATION OF NET OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (221,490)	$ (199,036)
Adjustments to reconcile operating loss to cash used by operating activities:		
Depreciation expense	95,952	90,062
Change in assets and liabilities:		
Receivables, net	(7,168)	3,666
Inventory	(1,994)	(2,393)
Other assets	6,439	3,258
Accounts payable	20,039	7,935
Accrued payroll	10,896	(1,603)
Compensated absences & postemployment benefits	2,122	1,284
Deferred revenue	10,285	(2,372)
Deposits & other liabilities	7,232	1,916
Net cash used by operating activities	$ (77,687)	$ (97,283)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital leases	$ 8,479	$ 7,974
Donated property and equipment	5,025	5,579
Annuity and life income	(6)	106
Increase in fair value of investments	37,994	6,384
Total noncash investing, capital, and financing activities	$ 51,492	$ 20,043

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 September 9, 2004, has been issued under separate cover.

- ARUP is a for-profit corporation that provides clinical laboratory services to medical centers, hospitals, clinics and other clinical laboratories throughout the United States, including UUHC. ARUP contracts with the Department of Pathology of the University of Utah School of Medicine to provide pathology consulting services. The fiscal year end for ARUP is June 30. Other independent auditors audited ARUP and their report, dated August 20, 2004, 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 ARUP 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, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and required by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities.* When both restricted and unrestricted resources are available, such resources are spent and tracked at the discretion of the department within the guidelines of donor restrictions.

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

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

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

In accordance with GASB Statement No. 34, certain expenses are netted against revenues as allowances. The following schedule presents revenue allowances for the years ended June 30, 2004 and 2003:

Revenue	2004	2003
Tuition and fees	$11,619,653	$ 9,312,966
Patient services	35,682,964	31,024,136
Sales and services	8,650	9,428
Auxiliary enterprises	812,115	448,422

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, 2004, were approximately $5,466,000.

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, 2004, was approximately $29,422,000.

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, 103 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, 2004, these expenditures were approximately $1,548,000.

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

The University has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* which requires certain reporting changes for the disclosure of deposits and investment risk.

H. Disclosures

The footnotes related to the financial statements for the fiscal year ended June 30, 2003 have not been repeated in this report but are available in the separately issued financial statements for that year. Also, certain amounts for fiscal year 2003 have been restated and fiscal year 2003 information is presented for comparison purposes only.

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

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

The Utah State Treasurer's Office operates the Utah Public Treasurer's Investment Fund (PTIF) which is invested in accordance with the State Money Management Act. The State Money Management Council provides regulatory oversight for the PTIF. The PTIF is available for investment of funds administered by any Utah Public Treasurer. The fair value of the PTIF investments is approximately the same as the stated value of the PTIF shares at June 30, 2004.

At June 30, 2004, cash and cash equivalents and short-term investments consisted of:

Cash and Cash Equivalents	
Cash	$ (871,896)
Money market funds	12,437,547
Time certificates of deposit	12,862,815
Obligations of the U.S. Government and its agencies	34,598,943
Utah Public Treasurer's Investment Fund	395,481,389
Total (fair value)	$454,508,798

Short-term Investments	
Obligations of the U.S. Government and its agencies	$ 25,450,051
Total (fair value)	$ 25,450,051

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, 2004.

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, 2004, 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, 2004, was approximately $43,848,000. The net appreciation is a component of restricted expendable net assets.

At June 30, 2004, the investment portfolio composition was as follows:

Obligations of the U.S. Government and its agencies	$119,466,667
Mutual funds	334,192,551
Common and preferred stocks	29,111,500
Total (fair value)	$482,770,718

4. DEPOSITS AND INVESTMENTS

The Utah State Money Management Act defines the types of securities authorized as appropriate investments for the University and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

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

Statutes also authorize the University to invest funds acquired by gift, private grant, and the corpus of funds functioning as endowments according to the rules of the State Money Management Council. Rule 2 allows the University to invest these funds in any of the above investments or any of the following subject to satisfying certain criteria: professionally managed pooled or commingled investment funds, or mutual funds which satisfy certain criteria; common stock, convertible preferred stock or convertible bonds; corporate bonds or debentures; and alternative investments as defined in the rule.

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

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

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

A. Deposits

At June 30, 2004, the carrying amounts of the University's deposits and bank balances were $20,665,109 and $41,889,014, respectively. The bank balances of the University were insured for $400,000, by the Federal Deposit Insurance Corporation. The bank balances in excess of $400,000 were uninsured and uncollateralized, leaving $41,489,014 exposed to custodial credit risk. All deposits were held by a qualified depository as defined by the State Money Management Act. The State of Utah does not require collateral on deposits.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the University's deposits may not be returned to the University. The University does not have a formal deposit policy for custodial credit risk.

B. Investments

As of June 30, 2004, the University had investments and maturities as shown in *Figure 1.*

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for University funds acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits and fixed rate corporate obligations, to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years. For University funds acquired by gifts, grants, or the corpus of funds functioning as endowments, Rule 2 of the State Money

Figure 1.

		Investment Maturities (in years)		
Investment Type	Fair Value	Less than 1	1 - 5	6 - 10
Money market funds	$ 3,321,070	$ 3,321,070		
Utah Public Treasurer's Investment Fund	395,481,389	395,481,389		
U.S. Treasuries	34,899,518	5,006,251	$ 29,568,900	$ 324,367
U.S. Agencies	144,616,143	55,042,743	89,573,400	
Mutual bond funds	73,402,461		9,753,454	63,649,007
Totals	651,720,581	$458,851,453	$128,895,754	$63,973,374
Common and preferred stocks	29,111,500			
Absolute return fund	45,461,483			
Equity funds	175,455,434			
Hedge fund	38,857,944			
Venture capital funds	1,015,229			
Totals	$941,622,171			

Figure 2.

Investment Type	Quality Rating Fair Value	AAA	Unrated
Money market funds	$ 3,321,070	$ 3,045,888	$ 275,182
Utah Public Treasurer's Investment Fund	395,481,389		395,481,389
U.S. Treasuries	34,899,518		34,899,518
U.S. Agencies	144,616,143	144,616,143	
Mutual bond funds	73,402,461	47,915	73,354,546
Totals	$651,720,581	$147,709,946	$504,010,635

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

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

At June 30, 2004, the University had debt securities and quality ratings as shown in *Figure 2.*

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. The University does not have a formal investment policy for custodial credit risk that further limits custodial arrangements from what is required by the State Money Management Act in regard to custody of the University's investments. At June 30, 2004, U.S. Treasuries and Agencies debt securities investments were held in a University account at the University's custodial bank, Wells Fargo Bank.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with the Rules of the State Money Management Council. For University funds acquired by gifts, grants, or the corpus of funds functioning as endowments, Rule 2 of the State Money Management Council limits investments in equity securities and fixed income securities to no more than 5% of all funds in any one issuer and no more than 25% of all funds in any one industry. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the State Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio. At June 30, 2004, there were no single issuer investments that exceeded 5%.

5. RECEIVABLES

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

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

The following schedule presents receivables at June 30, 2004, including approximately $26,201,000 and $30,468,000 of noncurrent loans and pledges receivable, respectively:

Accounts	$191,728,815
Contracts and grants	28,167,866
Loans	31,866,042
Pledges	30,467,813
Interest	1,481,929
	283,712,465
Less allowances for bad debt	(38,969,829)
Receivables, net	$244,742,636

6. DEFERRED CHARGES AND OTHER ASSETS

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

7. CAPITAL ASSETS

Buildings; infrastructure and improvements, which includes roads, curbs and gutters, streets and sidewalks, and lighting systems; land; equipment; and library materials are valued at cost at the date of acquisition or at fair market value at the date of donation in the case of gifts. Buildings, infrastructure and improvements, and additions to existing assets are capitalized when acquisition cost equals or exceeds $50,000. Equipment is capitalized when acquisition costs exceed $5,000 for the University or $500 for UUHC. All costs incurred in the acquisition of library materials are capitalized. The University acquires some of its equipment from inventories of government excess property for which the University pays a minimal processing charge. Such property is valued at the original cost paid by the governmental entity. All campus land acquired through grants from the U.S. Government has been valued at $3,000 per acre. Other land acquisitions have been valued at original cost or fair market value at the date of donation in the case of gifts. Buildings, improvements, land, and equipment of component units have been valued at cost at the date of acquisition.

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

At June 30, 2004, the University had outstanding commitments for the construction and remodeling of University buildings of approximately $44,683,000.

Capital assets at June 30, 2004, are shown in *Figure 3*.

8. PENSION PLANS AND RETIREMENT BENEFITS

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

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

Figure 3.	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	$1,030,348,393	$27,174,381	$ 2,652,943	$1,054,869,831
Infrastructure and improvements	107,613,250	12,560,247	432,538	119,740,959
Land	17,267,453			17,267,453
Equipment	423,354,994	45,887,118	32,303,366	436,938,746
Library materials	135,070,602	5,665,480	1,300,641	139,435,441
Art and special collections	28,702,402	3,226,662		31,929,064
Construction in progress	68,512,697	38,676,854	31,450,783	75,738,768
Total cost	1,810,869,791	133,190,742	68,140,271	1,875,920,262
Less accumulated depreciation				
Buildings	360,989,508	40,775,348	462,441	401,302,415
Infrastructure & improvements	58,203,599	5,622,758	273,619	63,552,738
Equipment	295,763,793	42,544,994	28,469,196	309,839,591
Library materials	71,414,925	5,651,009	1,241,972	75,823,962
Total accumulated depreciation	786,371,825	94,594,109	30,447,228	850,518,706
Capital assets, net	$1,024,497,966	$38,596,633	$37,693,043	$1,025,401,556

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 7.21% 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 13.20% (including 1.50% to a 401(k) salary deferral program) and 21.15%, 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, 2004, the University's contribution to this defined contribution pension plan was 14.20% of the employees' annual salaries. The University has no further liability once contributions are made. Certain health clinic employees hired prior to January 1, 2001, were fully vested as of that date. Employees hired subsequent to January 1, 2001, are eligible to participate in the plan one year after hire date and vest after six years. The University's contribution for these health clinic employees was 3.00% of the employees' annual salaries.

The ARUP defined contribution pension and profit sharing plans provide retirement benefits for all employees who have 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, 2004, 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, 2004, 2003, and 2002, the University's contributions to the Systems, as shown in *Figure 4*, were equal to the required amounts.

Figure 4.

	2002	2003	2004
State and School Contributory Retirement System	$ 1,312,287	$ 1,273,895	$ 1,419,412
State and School Noncontributory Retirement System	18,665,355	18,098,640	20,178,128
Public Safety Noncontributory Retirement System	277,954	260,676	279,877
TIAA-CREF	58,427,949	60,285,163	68,747,144
Pension plan	1,989,086	2,303,659	2,646,171
Profit sharing plan	1,468,390	2,256,037	3,173,865
Total contributions	$82,141,021	$84,478,070	$96,444,597

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, 2004, was $47,360,966.

In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of $7,001,819 as of June 30, 2004, based on a predetermined formula. The fair value of this stock as of June 30, 2004 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, 2004, 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, 2004, is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the University's estimated self-insurance claims liability are as follows:

Estimated claims liability - beginning of year	$ 32,830,781
Current year claims and changes in estimates	100,540,860
Claim payments, including related legal and administrative expenses	(90,512,411)
Estimated claims liability - end of year	$ 42,859,230

The University has recorded the investments of the malpractice liability trust funds at June 30, 2004, 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 of Utah, has a dual status for federal income tax purposes. The University is both an Internal Revenue Code (IRC) Section 115 organization and an IRC Section 501(c)(3) charitable organization. This status exempts the University from paying federal income tax on revenue generated by activities which are directly related to the University's mission. This exemption does not apply to Unrelated Business Activities. On these activities, the University is required to report and pay federal and state income tax.

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

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. ARUP collected $5,616,700 in income tax refunds and $1,791,779 in related interest during the year ended June 30, 2004. No additional income tax refunds are expected.

13. HOSPITAL REVENUE

A. Net Patient Service Revenue

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

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

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

B. Charity Care

UUHC maintains records to identify and monitor the level of charity care it provides. Based on established rates, the charges foregone as a result of charity during the year ended June 30, 2004, were approximately $20,692,000.

14. LEASES

A. Revenue

UURF receives lease revenues from noncancellable sublease agreements with tenants of the Research Park, 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 $6,000,000, and for twenty years thereafter, comparable annual amounts. Most lease revenue is subject to escalation based on changes in the Consumer

Price Index (CPI). Since such escalations are dependent upon future changes in the CPI, these escalations, if any, are not reflected in the minimum noncancellable lease revenues listed above.

B. Commitments

The University leases buildings and office and computer equipment. Capital leases are valued at the present value of future minimum lease payments. Assets associated with the capital leases are recorded as buildings and equipment together with the related long-term obligations. Assets currently financed as capital leases amount to $16,875,000 and $102,785,314 for buildings and equipment, respectively. Accumulated depreciation for these buildings and equipment amounts to $1,202,344 and $54,004,786, respectively. Capital leases of ARUP are guaranteed by the University. Operating leases and related assets are not recorded in the Statement of Net Assets. Payments are recorded as expenditures when incurred and amount to approximately $9,432,000 for the University and $4,337,000 for component units for the year ended June 30, 2004. Total operating lease commitments for the University include approximately $5,755,000 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 and three percent annually in the sixth and eleventh years from the commencement of the lease. Total lease payments for the year ended June 30, 2004 was $4,330,402.

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 began 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, 2004 are shown in *Figure 5.*

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.

Figure 5.

Fiscal Year	Operating	Capital
2005	$ 16,123,683	$13,841,538
2006	14,364,844	11,223,074
2007	12,476,252	9,239,337
2008	10,941,863	7,994,946
2009	9,496,842	20,316,232
2010 – 2014	48,811,224	30,452,498
Total future minimum lease payments	$112,214,708	93,067,625
Amount representing interest		(17,809,457)
Present value of future minimum lease payments		$75,258,168

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, 2004, is $7,100,000.

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 1.08%, which is the rate in effect at June 30, 2004.

The following schedule lists the outstanding bonds payable of the University at June 30, 2004:

Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2004
Auxiliary and Campus Facilities	3/1/87	2014	3.750% - 6.750%	$ 11,140,000	$ 185,000	$ 1,875,000
Research Facilities Revenue	4/1/96	2011	4.200% - 6.500%	21,050,000	1,451,298	11,965,924
Auxiliary and Campus Facilities	7/30/97	2027	Variable	52,590,000	945,000	16,390,000
Hospital Revenue Refunding	12/1/97	2006	4.750% - 5.500%	24,615,000	3,143,997	9,873,521
Hospital Revenue	6/1/98	2013	5.250% - 5.375%	25,020,000	54,176	25,633,817
Auxiliary and Campus Facilities Revenue and Refunding	7/1/98	2016	4.100% - 5.250%	120,240,000	1,773,726	118,963,277
Auxiliary and Campus Facilities	5/1/99	2014	4.000% - 4.800%	5,975,000	372,704	4,577,418
Research Facilities Revenue	7/13/00	2020	5.000% - 5.750%	17,585,000	620,296	15,074,580
Auxiliary and Campus Facilities	7/18/01	2021	3.500%- 5.125%	2,755,000	98,934	2,527,570
Hospital Revenue	8/7/01	2022	5.000%- 5.500%	26,670,000	13,694	27,036,411
Research Facilities Revenue	6/30/04	2019	3.000%- 4.700%	9,685,000	587,051	9,724,221
Total					$9,245,876	$243,641,739

UURF has purchased three buildings with two mortgages that are guaranteed by the University. The remaining amounts of the mortgages are $6,684,163 at 8.87% interest and $3,275,519 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, 2004:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$241,036,353	$ 9,724,221	$ 7,118,835	$243,641,739	$ 9,245,876
Capital leases payable	80,060,117	8,478,740	13,280,689	75,258,168	10,102,043
Notes & contracts payable	12,119,829	41,941	505,877	11,655,893	685,243
Total long-term debt	333,216,299	18,244,902	20,905,401	330,555,800	20,033,162
Compensated absences	30,237,305	21,201,555	19,079,428	32,359,432	3,837,490
Deposits & other liabilities	71,076,332	68,862,763	61,630,458	78,308,637	66,576,475
Total long-term liabilities	$434,529,936	$108,309,220	$101,615,287	$441,223,869	$90,447,127

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

Fiscal Year	Payments Principal	Payments Interest
2005	$ 20,033,162	$ 16,191,084
2006	18,276,932	15,430,509
2007	17,167,730	14,612,770
2008	13,311,440	13,844,397
2009	29,947,267	12,774,843
2010 – 2014	90,547,181	46,350,670
2015 – 2019	61,535,338	28,927,746
2020 – 2024	43,138,599	15,253,048
2025 – 2029	36,598,151	6,273,287
Total	$330,555,800	$169,658,354

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, 2004, is $4,330,000.

17. FUNCTIONAL CLASSIFICATION OF EXPENSES

The following schedule presents operating expenses by functional classification for the year ended June 30, 2004:

Function	Amount (in thousands)
Instruction	$ 216,498
Research	200,304
Public service	307,298
Academic support	61,481
Student services	16,205
Institutional support	49,725
Operation & maintenance of plant	41,332
Student aid	27,838
Other	328,810
Hospital	441,582
Total	$1,691,073

18. SEGMENT INFORMATION

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

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

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

Research Facilities – is the revenue generated by charging approved facilities and administration 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	Research Facilities
Assets			
Current assets			
Cash and cash equivalents	$(2,775,062)	$ 45,218,755	$33,265,898
Short-term investments		2,388,413	
Accounts receivable, net	1,829,692	90,956,843	5,366,538
Inventory	3,574,944	13,174,971	
Other assets	43,583	7,477,804	42,427
Total current assets	2,673,157	159,216,786	38,674,863
Noncurrent assets			
Investments		20,364,249	
Total noncurrent assets		20,364,249	
Total assets	2,673,157	179,581,035	38,674,863
Liabilities			
Current liabilities			
Accounts payable	967,102	16,501,101	470,810
Accrued payroll		12,226,241	
Compensated absences		951,523	
Deferred revenue	888,286	7,388,463	
Deposits and other liabilities	817,769	23,365,833	
Total current liabilities	2,673,157	60,433,161	470,810
Noncurrent liabilities			
Compensated absences		10,202,679	
Deposits and other liabilities		8,804,377	
Total noncurrent liabilities		19,007,056	
Total liabilities	2,673,157	79,440,217	470,810
Net assets, unrestricted	$ 0	$100,140,818	$38,204,053

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Auxiliary Campus & Facility System	UUHC	Research Facilities
Operating Revenues and Expenses			
Revenues			
Sales and services	$54,382,784	$536,565,304	
Facilities and administration			$57,313,279
Other operating revenues		11,592,768	
Total operating revenues	54,382,784	548,158,072	57,313,279
Expenses			
Compensation and benefits	12,643,380	239,365,365	15,012,306
Other operating expenses	31,390,627	254,693,721	26,224,828
Total operating expenses	44,034,007	494,059,086	41,237,134
Operating income	10,348,777	54,098,986	16,076,145
Nonoperating Revenues (Expenses)			
State appropriations		4,318,000	
Gifts		185	
Investment income (loss)	(1,203)	3,594	
Total nonoperating revenues (expenses)	(1,203)	4,321,779	
Transfers			
Mandatory transfers, out	(11,650,251)	(14,064,912)	(3,317,460)
Nonmandatory transfers, in (out)	1,302,677	(32,297,891)	(15,481,728)
Total transfers, out	(10,347,574)	(46,362,803)	(18,799,188)
Increase (decrease) in net assets	0	12,057,962	(2,723,043)
Net Assets			
Net assets - beginning of year	0	88,082,856	40,927,096
Net assets - end of year	$ 0	$100,140,818	$38,204,053

STATEMENT OF CASH FLOWS

	Auxiliary Campus & Facility System	UUHC	Research Facilities
Net cash provided (used) by			
Operating activities	$10,585,636	$55,166,494	$16,110,096
Noncapital financing activities	(10,347,574)	(42,044,618)	(18,799,188)
Investing activities	(1,203)	6,108,946	
Net increase (decrease) in cash	236,859	19,230,822	(2,689,092)
Cash (deficit) - beginning of year	(3,011,921)	25,987,933	35,954,990
Cash (deficit) - end of year	$(2,775,062)	$45,218,755	$33,265,898

THE UNIVERSITY OF UTAH | *Governing Boards and Officers*

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