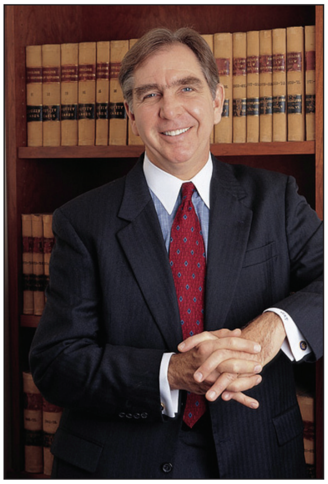
2006
ANNUAL FINANCIAL REPORT

THE UNIVERSITY OF UTAH

A Component Unit of the State of Utah

THE
UNIVERSITY
OF UTAH

Contents



Message from the President

I am pleased to present this financial report for the University's 2006 fiscal year. The University remains in good financial condition thanks to the vision, effort, and generosity of literally thousands of dedicated people. I keenly appreciate this extraordinary community of students, faculty, administrators, staff, alumni, and friends.

Although I could fill volumes with the accomplishments and promising initiatives of this extraordinary University, let me highlight just a few:

- The University continues its strong record as an "economic engine" that powers growth in Utah. This year 20 new University-based companies were created—distinguishing the University as among the best in commercializing research from a wide number of disciplines.
- The USTAR initiative is actively recruiting world-class research teams to Utah. These teams will develop products and services that can be commercialized in new businesses and industries, thereby creating high-paying jobs and increasing Utah's tax revenue.
- University Health Care continues as a major force in Utah's economic prosperity and quality of life. Financially, this year was the best ever for University Hospitals & Clinics. And, for the 13th straight year, University Hospital has been ranked among "best in the nation" by *U.S. News & World Report.*
- The University continues to provide outstanding public service for the benefit of Utah's citizens. For example, the Museum of Natural History reached more than 350,000 people last year through traveling exhibits, classroom, and field programs. This included visits to over 300 public schools. Through a variety of outreach programs, the Museum of Fine Arts served over 23,500 children through high school age. University Neighborhood Partners distributed educational materials to over 1,200 children and families and assisted 61 high school-age youth with neighborhood-based academic advising assistance in English and Spanish. Through its *Books Arts Program*, Marriott Library provided training and instruction to over 16,500 public school K-12 teachers and students.

While there is much to be proud of, there remains much to be accomplished. We are taking steps to ensure students benefit from more international opportunity while enjoying greater research and learning possibilities on campus. We are developing strategies that facilitate recruitment and successful retention of students of color, and shaping programs that entice outstanding students in all disciplines. We are working to recruit well-qualified students from junior colleges and are delighted that enrollment for freshmen and graduate admissions remains high.

The University of Utah was established through the vision and work of pioneer settlers of Salt Lake City. Upon arriving in the Salt Lake Valley by wagon, their leader Brigham Young's first words were "This is the right place. Drive on." Despite the toil and hardship of getting here, there was much work ahead and little time for rest. His words are as apt today as then—both for the State of Utah and its flagship University. Utah is the right place to confront the challenges facing society. There is no better time to move forward. Like our predecessors, we "drive on."

Michael K. Young

Auston G. Johnson, CPA
UTAH STATE AUDITOR

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Independent State Auditor's Report

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

We have audited the accompanying basic financial statements of the University of Utah (hereinafter referred to as the "University"), a component unit of the State of Utah, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Utah Hospitals and Clinics or the University's component units, which represent approximately 22% ($604,820,000) of total assets and 43% ($926,600,000) of total revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Utah Hospitals and Clinics and the component units, is based on the reports of the other auditors. The prior year partial comparative information has been derived from the University's 2005 financial statements and, in our report dated September 30, 2005, we expressed an unqualified opinion, based on our audit and the reports of other auditors, on the basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2006, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006 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, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Auston G. Johnson, CPA
Utah State Auditor
September 29, 2006

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, 2006, with selected comparative information for the year ended June 30, 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

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

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

FINANCIAL HIGHLIGHTS

The University's financial position remained strong at June 30, 2006, with assets of $2.8 billion and total liabilities of $.7 billion. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased by $210.3 million to $2.1 billion at June 30, 2006.

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, 2006 and 2005 in *Figure 1.*

Fiscal year 2006 revenues before change in fair value of investments increased 8.7%, or $172.9 million, while expenses increased 7.6%, or $139.6 million. This resulted in a net gain before changes in fair value of investments of $183.1 million for fiscal year 2006, as compared to $149.8 million for fiscal year 2005.

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 7.8% 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 $342.5 million and $319.7 million for the years ended June 30, 2006 and 2005, respectively. Nonoperating expenses, which include interest expense, totaled $33.6 million and $26.2 million for the years ended June 30, 2006 and 2005, 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 are presented as scholarship and fellowship expenses. For the years ended June 30, 2006 and 2005, scholarship and fellowship expenses totaled $21.6 million and $21.3 million, respectively. In addition, scholarships and fellowships in the amount of $17.4 million and $13.6 million for the years ended June 30, 2006 and 2005, respectively, are reported as a reduction of tuition and fees and auxiliary enterprises revenue.

Other appropriate revenue items have also been reduced by bad debt expense incurred during each fiscal year.

Figure 1.	2006	2005
	(in thousands)	
Total revenues before change in fair value of investment	$2,149,334	$1,976,472
Total expenses	1,966,266	1,826,662
Increase in net assets before change in fair value of investments	183,068	149,810
Increase in fair value of investments	27,250	28,429
Increase in net assets	$ 210,318	$ 178,239

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, 2006 and 2005 is shown in *Figure 2*.

A review of the University's Statement of Net Assets at June 30, 2006 and 2005, 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 7.2 months of total operating expenses (excluding depreciation). Current cash and investments for capital and student loan activities totaled $100.6 million at June 30, 2006 and $130.8 million at June 30, 2005. Receivables increased from $213.9 million at June 30, 2005 to $233.2 million at June 30, 2006.

Current liabilities consist primarily of trade accounts, accrued compensation, deposits, and other liabilities, which totaled $270.2 million at June 30, 2006, as compared to $243.2 million at June 30, 2005. Current liabilities also include deferred revenue, and the current portion of bonds payable. Total current liabilities increased $27.0 million during fiscal year 2006.

Figure 2.

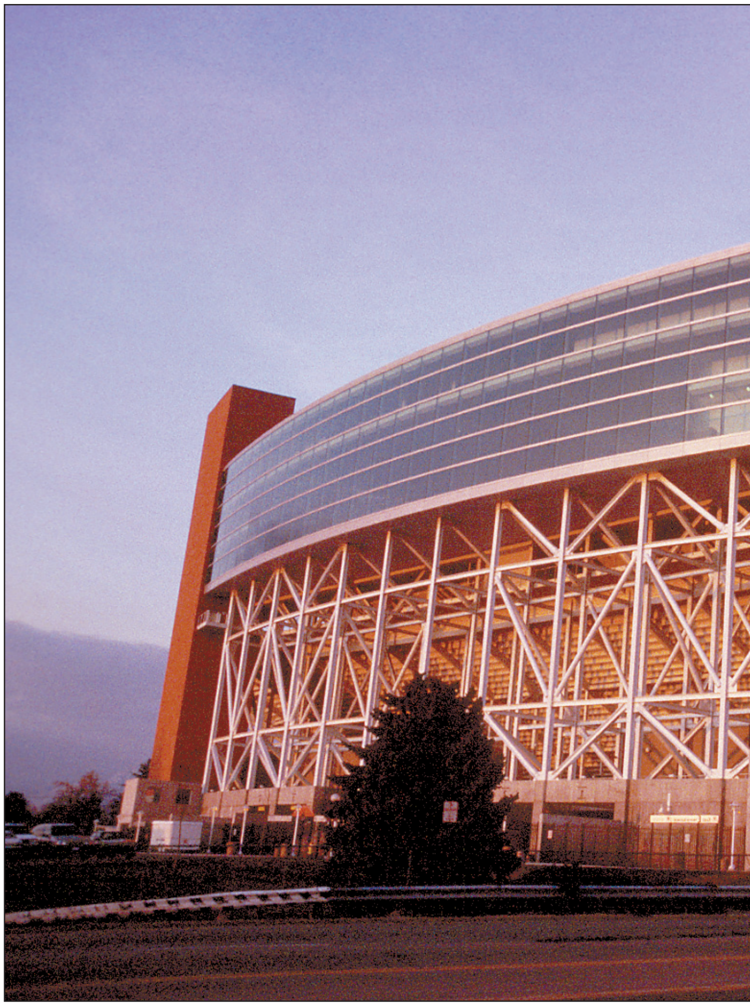
	2006	2005
	(in thousands)	
Current assets	$1,094,249	$ 822,181
Noncurrent assets		
Endowment and other investments	474,858	473,133
Receivables	51,985	57,628
Capital assets, net	1,137,791	1,094,780
Other	18,620	18,981
Total assets	2,777,503	2,466,703
Current liabilities	270,175	243,182
Noncurrent liabilities	434,305	360,816
Total liabilities	704,480	603,998
Net assets	$2,073,023	$1,862,705

ENDOWMENT AND SIMILAR INVESTMENTS

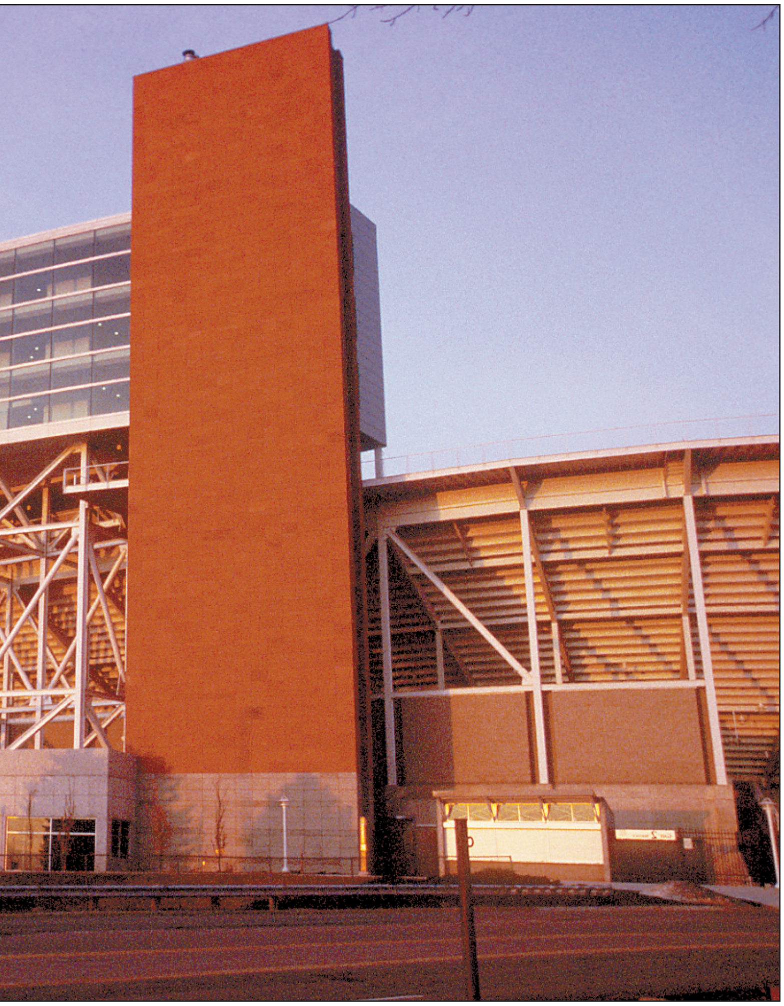
The University's endowment funds consist of true endowments, term endowments, and quasi-endowments. True endowments (also known as permanent endowments) are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is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

The University of Utah endowment pool returned 9.6% for the year ended June 30, 2006 compared to 10.6% for the year ended June 30, 2005. 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 (8.6% gain and 0.8% loss, respectively, for fiscal year 2006). The net gain on the endowment pool for the year ended June 30, 2006 totaled $24.6 million compared to a gain of $26.3 million for the year ended June 30, 2005.

Endowment funds are invested to maximize long-term results. During fiscal year 2006, the University implemented new investment guidelines and asset allocation for the University's Endowment Pool. The new asset allocation provides for broad diversification of assets with the long-term goal of maximizing returns within acceptable risk levels for investment of 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, 2006, the spending policy was 4.0% of the twelve quarter moving average of unit market values. Endowment pool income used in operations was $12.0 million in fiscal year 2006. The amount allocated to operations exceeded dividends and interest earned on pool investments by $5.6 million.



Since endowment funds are invested for long-term results rather than short-term annual returns, it is important to reflect on the longer investment horizon. Over the past ten years, the University's endowment pool has earned an average total return of 7.8%, paid out an average of 4.2%, and reinvested the balance representing an average of 3.6%. 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 $19.3 million and $14.6 million for the fiscal years 2006 and 2005, 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 $165.2 million in fiscal year 2006, as compared to $246.8 million in fiscal year 2005. 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, 2006, totaled $139.0 million that includes projects in numerous buildings across the campus. Significant projects include: medical laboratories; additional ophthalmologic facilities; a health education facility; engineering office and classroom facilities; and renovation of the Marriott Library.

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. The debt rating of the University is an important indicator of success in this area. The underlying bond ratings from Standard and Poor's and Moody's Investors Service for the Auxiliary and Campus Facilities Bonds are AA/Aa2, the Hospital Revenue Bonds are AA/Aa2, and the Research Facilities Revenue Bonds are AA-/Aa3, respectively. These ratings are considered high investment grade quality and position the University, if deemed necessary, to obtain future debt financing at low interest rates and reduced issuance costs.

Bonds payable totaled $210.9 million and $238.1 million at June 30, 2006 and 2005, respectively. One new Auxiliary and Campus Facility Revenue Refunding Bond series and one new Hospital

Revenue Refunding Bonds series were issued in fiscal year 2006, which partially advance refunded one previously issued Auxiliary and Campus Facility Revenue Bond series and two other previously issued Hospital Revenue Bond series. The original purpose of all bond debt is to provide funds for the construction and renovation of major capital facilities and the acquisition of capital equipment for the University.

An institution's ratio of unrestricted operating revenues to bonds, notes and contract debt is a valuable indicator of its ability to finance its outstanding debt. At June 30, 2006, 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 $87.5 million of quasi-endowments.

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of operations. A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2006 and 2005 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.

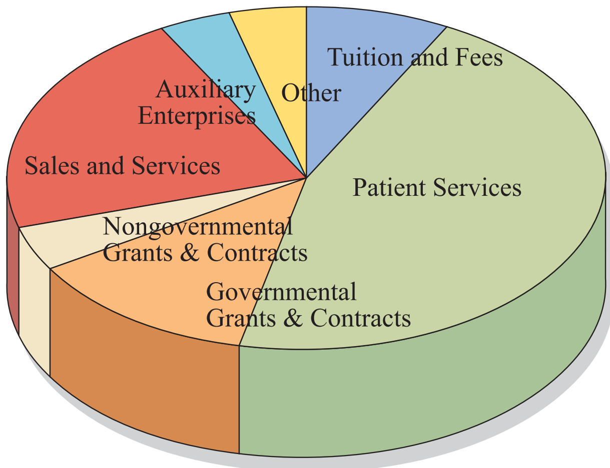
Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 34. *Graph 1* (Operating Revenues) and *Graph 2* (Nonoperating Revenues) are illustrations of revenues by source, which were used to fund the University's operations for the year ended June 30, 2006 (amounts are presented in thousands of dollars).

Figure 3.

	2006	2005
	(in thousands)	
Operating revenues		
Tuition and fees	$ 142,432	$ 132,189
Patient services	821,704	746,425
Grants and contracts	300,744	294,588
Sales and services	382,902	324,503
Auxiliary enterprises	70,433	75,802
Other	72,116	66,838
Total operating revenues	1,790,331	1,640,345
Operating expenses	1,932,667	1,800,464
Operating loss	(142,336)	(160,119)
Nonoperating revenues (expenses)		
State appropriations	249,608	238,756
Gifts	26,248	26,787
Investment income	66,620	54,179
Interest expense	(14,801)	(16,172)
Other	(18,798)	(10,026)
Net nonoperating revenues	308,877	293,524
Capital appropriations	9,014	8,953
Capital and endowment grants and gifts	34,763	35,881
Total capital and endowment revenues	43,777	44,834
Increase in net assets	210,318	178,239
Net assets - beginning of year	1,862,705	1,684,466
Net assets - end of year	$2,073,023	$1,862,705

Graph 1.

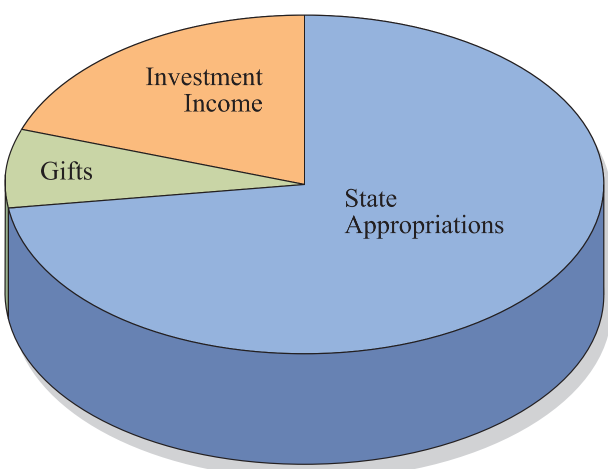
OPERATING REVENUES



Tuition and Fees	$142,432
Patient Services	$821,704
Governmental Grants & Contracts	$226,655
Nongovernmental Grants & Contracts	$74,089
Sales and Services	$382,902
Auxiliary Enterprises	$70,433
Other	$72,116

Graph 2.

NONOPERATING REVENUES



State Appropriations	$249,608
Gifts	$26,248
Investment Income	$66,620

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 utility costs. To manage this financial pressure, the University continues to seek diversified sources of revenue and to implement cost containment measures.

Tuition and state appropriations are the primary sources of funding for the University's academic programs. Student tuition and fees, net of allowances for scholarships and fellowships, increased $10.2 million, or 7.7% to $142.4 million in fiscal year 2006. State appropriations increased 4.5% or $10.9 million to $249.6 million in fiscal year 2006.

While tuition and state appropriations fund a significant percentage of the University's academic and administrative costs, private support has been, and will continue to be, essential to the University's academic success. Private support remained stable with gift revenues for operations slightly decreasing by 2.0%, or $0.5 million, to $26.2 million in fiscal year 2006.

Revenues for grants and contracts increased 2.1%, or $6.2 million, to $300.7 million in fiscal year 2006, 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 10.1% or $75.3 million to $821.7 million in fiscal year 2006. The majority of these revenues relate to patient care services, which are generated within UUHC under contractual arrangements with governmental payers and private insurers. Increased revenues primarily resulted from a growth in patient volume, demand for specialty services provided by outpatient clinics and moderate price increases for patient services.

Net investment income for the years ended June 30, 2006 and 2005, consisted of the following components:

	2006	2005
	(in thousands)	
Interest and dividends, net	$39,370	$25,750
Net increase in fair value of investments	27,250	28,429
Net investment income	$66,620	$54,179

Net investment income totaled $66.6 million in fiscal year 2006, as compared to $54.2 million in fiscal year 2005, which is an increase of $12.4 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 $12.0 million in fiscal year 2006, as compared to $11.6 million in fiscal year 2005. In addition, in fiscal year 2006, $1.3 million was returned to endowment principal.

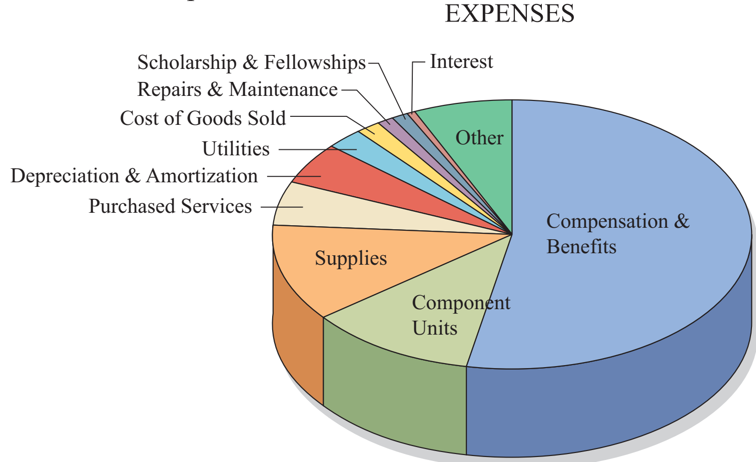
Capital appropriations received from the State in fiscal year 2006, which totaled $9.0 million, funded a portion of building renovation projects. Other revenues include capital grants and gifts and additions to permanent endowments totaling $34.8 million for the fiscal year ending June 30, 2006.

A comparative summary of the University's expenses for the years ended June 30, 2006 and 2005 follows:

	2006	2005
	(in thousands)	
Operating		
Compensation and benefits	$1,043,826	$ 980,676
Component units	227,340	203,419
Supplies	228,806	201,988
Purchased services	103,443	94,419
Depreciation and amortization	97,475	96,142
Utilities	52,238	44,905
Cost of goods sold	29,165	29,411
Repairs and maintenance	21,004	10,809
Scholarships and fellowships	21,624	21,338
Other	107,746	117,357
Total operating	1,932,667	1,800,464
Nonoperating		
Interest and other	33,599	26,198
Total expenses	$1,966,266	$1,826,662

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

Graph 3.



Compensation and Benefits	$1,043,826
Component Units	$227,340
Supplies	$228,806
Purchased Services	$103,443
Depreciation and Amortization	$97,475
Utilities	$52,238
Cost of Goods Sold	$29,165
Repairs and Maintenance	$21,004
Scholarships and Fellowships	$21,624
Interest	$14,801
Other	$126,544

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 6.4%, or $63.2 million, to $1,043.8 million in fiscal year 2006. Of this increase, compensation increased 7.1%, or $53.6 million, as a result of annual increases and the hiring of additional employees. The related employee benefits increased 4.3% or $9.6 million.

Other operating expenses decreased 8.2%, or $9.6 million, to $107.7 million in fiscal year 2006.

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, 2006 and 2005 follows:

	2006	2005
	(in thousands)	
Instruction	$ 248,885	$ 232,232
Research	215,018	211,529
Public service	354,797	314,762
Academic support	66,299	66,488
Student services	18,246	16,890
Institutional support	35,780	50,656
Operations and maintenance of plant	48,335	43,027
Student aid	32,071	32,035
Other	361,568	314,734
Hospital	551,668	518,111
Total operating expenses	$1,932,667	$1,800,464

Instruction, research, and public service expenses increased 7.9%, or $60.2 million, to $818.7 million in fiscal year 2006. Academic and institutional support expenses decreased 12.9%, or $15.1 million, to $102.1 million in fiscal year 2006.

STATEMENT OF CASH FLOWS

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

The University's cash and cash equivalents decreased $22.1 million due primarily to the purchase of investments, debt service and operating activities. This negative flow of funds was offset by funds provided by noncapital financing activities, predominantly state appropriations. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 9, include state appropriations and private gifts used to fund operating activities.

CURRENT FACTORS HAVING PROBABLE FUTURE FINANCIAL SIGNIFICANCE

A primary factor contributing to the University's sound financial footing is the performance of its healthcare operations, UUHC and ARUP - with fiscal year 2006 distinguishing itself as the best year ever for both organizations. These operations will probably continue to comprise a growing proportion of total University revenues.

Academic colleges and related services operating on the main campus are, for the most part, financially healthy – but are reliant on state appropriations and federal research funds. The economy of the State of Utah continues to expand and this bodes well for higher education support. Management anticipates modest increases in general State support for compensation in the 3-5% range. It is also hoped that the State may address some long-standing needs for deferred maintenance and utility cost funding – at least on a one-time basis.

Federal research awards for 2006, while significant, reflect little growth over the prior year. Competition for these funds is intense, and the federal government research budget has been stagnant in recent years. This not only has an effect on direct research revenues, but on the indirect cost recovery the University receives to reimburse overhead costs associated with research activities. On a related note, the University has submitted a new facilities and administration rate study – based on fiscal year 2005 data, to the federal government as part of the process to renegotiate the indirect cost reimbursement rate for research. This negotiation will likely take place in 2007, and we believe the current on-campus rate of 49.5% can be maintained or increased.

On the positive side, the University is gearing up for a major capital campaign, which is projected to add significantly to our endowment base. We are also looking forward to increased income from long-term investments as the economy continues to rebound and investment returns increase somewhat from the relatively modest gains of recent years. In addition, during fiscal year 2006 the University's Huntsman Cancer Institute (HCI) and the Huntsman Cancer Hospital (HCH) applied for and received significant funding from the Centers for Medicare and Medicaid Services (a division of the Department of Health and Human Services), in the form of a forgivable loan. Although it is not certain, HCI and HCH intend to satisfy the forgiveness provisions of this loan. If they are successful, loan proceeds will be used to retire certain debt issued to finance HCI and HCH, which will significantly reduce the University's debt service payments.

In summary, despite various challenges, the University remains on solid financial footing and maintains a strong set of financial performance indicators. These factors contribute to the high levels of confidence and support that the University enjoys from students, donors, legislators, taxpayers, sponsors, and creditors.

Financial Statements

THE UNIVERSITY OF UTAH | Statement of Net Assets

(in thousands of dollars)

As of June 30

	2006	2005 [For Comparison Only]
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2 & 4)	$ 558,042	$ 491,679
Short-term investments (Notes 2 & 4)	264,883	80,061
Receivables, net (Note 5)	233,208	213,948
Inventory (Note 1)	30,005	27,591
Other assets (Note 6)	8,111	8,902
Total current assets	1,094,249	822,181
Noncurrent Assets		
Restricted cash and cash equivalents (Notes 2 & 4)	25,911	114,359
Restricted short-term investments (Notes 2 & 4)	865	710
Investments (Notes 3 & 4)	158,628	175,966
Restricted investments (Notes 3 & 4)	289,454	182,098
Restricted receivables, net (Note 5)	51,985	57,628
Donated property held for sale	2,732	2,782
Other assets (Note 6)	15,888	16,199
Capital assets, net (Note 7)	1,137,791	1,094,780
Total noncurrent assets	1,683,254	1,644,522
Total assets	2,777,503	2,466,703
LIABILITIES		
Current Liabilities		
Accounts payable	63,494	61,820
Accrued payroll	62,129	56,077
Compensated absences & early retirement benefits (Note 1)	4,223	3,990
Deferred revenue (Note 9)	23,742	23,816
Deposits & other liabilities (Notes 11 & 15)	95,355	77,390
Bonds, notes and contracts payable (Notes 14, 15, & 16)	21,232	20,089
Total current liabilities	270,175	243,182
Noncurrent Liabilities		
Compensated absences & early retirement benefits (Note 1)	34,202	31,002
Deposits & other liabilities (Notes 11 & 15)	9,019	11,345
Bonds, notes and contracts payable (Notes 14, 15, & 16)	391,084	318,469
Total noncurrent liabilities	434,305	360,816
Total liabilities	704,480	603,998
NET ASSETS		
Invested in capital assets, net of related debt	828,988	760,338
Restricted for		
Nonexpendable		
Instruction	99,041	92,889
Research	32,944	30,057
Public service	45,205	39,771
Academic support	31,550	29,580
Scholarships	91,010	78,711
Other	5,284	4,033
Expendable		
Instruction		5,768
Research	152,083	123,239
Public service	20,869	25,971
Academic support	52,130	41,651
Institutional support	38,979	29,528
Scholarships		5,765
Loans	35,976	37,048
Debt service	2,504	14,474
Capital additions	52,054	49,228
Other	4,134	6,193
Unrestricted	580,272	488,461
Total net assets	$2,073,023	$1,862,705

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

	2006	[For Comparison Only] 2005
OPERATING REVENUES AND EXPENSES		
Revenues		
Tuition and fees (Note 1)	$ 142,432	$ 132,189
Patient services (Notes 1 & 13)	821,704	746,425
Federal grants and contracts	207,097	207,079
State and local grants and contracts	19,558	16,870
Nongovernmental grants and contracts	74,089	70,639
Sales and services (Note 1)	382,902	324,503
Auxiliary enterprises (Note 1)	70,433	75,802
Other operating revenues	72,116	66,838
Total operating revenues	1,790,331	1,640,345
Expenses		
Compensation and benefits	1,043,826	980,676
Component units	227,340	203,419
Supplies	228,806	201,988
Purchased services	103,443	94,419
Depreciation and amortization	97,475	96,142
Utilities	52,238	44,905
Cost of goods sold	29,165	29,411
Repairs and maintenance	21,004	10,809
Scholarships and fellowships	21,624	21,338
Other operating expenses	107,746	117,357
Total operating expenses	1,932,667	1,800,464
Operating loss	(142,336)	(160,119)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	249,608	238,756
Gifts	26,248	26,787
Investment income	66,620	54,179
Interest	(14,801)	(16,172)
Other nonoperating expenses	(18,798)	(10,026)
Total nonoperating revenues	308,877	293,524
Gain before capital and permanent endowment additions	166,541	133,405
Capital appropriations	9,014	8,953
Capital grants and gifts	20,788	24,491
Additions to permanent endowments	13,975	11,390
Total capital and permanent endowment additions	43,777	44,834
Increase in net assets	210,318	178,239
NET ASSETS		
Net assets - beginning of year	1,862,705	1,684,466
Net assets - end of year	$2,073,023	$1,862,705

THE UNIVERSITY OF UTAH | Statement of Cash Flows

(in thousands of dollars)

For the Years Ended June 30

	2006	[For Comparison Only] 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees	$ 142,705	$ 132,850
Receipts from patient services	815,311	719,817
Receipts from contracts and grants	291,799	295,380
Receipts from auxiliary and educational services	452,831	401,263
Collection of loans to students	8,649	7,868
Payments to suppliers	(769,381)	(721,667)
Payments for personal services	(1,034,341)	(974,425)
Payments for scholarships/fellowships	(21,623)	(21,338)
Loans issued to students	(5,880)	(9,692)
Other	85,219	73,638
Net cash used by operating activities	(34,711)	(96,306)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	249,608	238,756
Gifts		
Endowment	14,407	11,506
Nonendowment	27,307	29,401
Other	(18,732)	(9,870)
Net cash provided by noncapital financing activities	272,590	269,793
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	171,048	26,888
Capital appropriations	9,014	8,952
Gifts	21,820	19,787
Purchase of capital assets	(125,315)	(131,079)
Principal paid on capital debt	(112,690)	(53,490)
Interest paid on capital debt	(14,640)	(16,165)
Net cash used by capital and related financing activities	(50,763)	(145,107)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	113,391	180,594
Receipt of interest on investments	40,551	24,646
Purchase of investments	(363,143)	(82,091)
Net cash provided (used) by investing activities	(209,201)	123,149
Net increase (decrease) in cash	(22,085)	151,529
Cash - beginning of year	606,038	454,509
Cash - ending of year	$ 583,953	$ 606,038

The accompanying notes are an integral part of these financial statements

THE UNIVERSITY OF UTAH | Statement of Cash Flows

(in thousands of dollars)

For the Years Ended June 30

	2006	[For Comparison Only] 2005
RECONCILIATION OF NET OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (142,336)	$ (160,119)
Adjustments to reconcile operating loss to cash used by operating activities		
Depreciation expense	97,475	96,142
Change in assets and liabilities		
Receivables, net	(15,290)	(24,072)
Inventory	(2,414)	(2,156)
Donated property held for sale	29	
Other assets	1,102	434
Accounts payable	1,673	(17,636)
Accrued payroll	6,052	3,618
Compensated absences & early retirement benefits	3,434	2,632
Deferred revenue	(75)	(5,575)
Deposits & other liabilities	15,639	10,426
Net cash used by operating activities	$ (34,711)	$ (96,306)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital leases	$ 15,172	$ 30,370
Donated property and equipment	12,786	8,582
Annuity and life income	162	163
Increase in fair value of investments	27,250	28,429
Total noncash investing, capital, and financing activities	$ 55,370	$ 67,544

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

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

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

- UURF is a not-for-profit corporation governed by a board of directors who are affiliated with the University with the exception of two. 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. UURF is audited by other independent auditors and their report, dated September 6, 2006, 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 September 1, 2006, has been issued under separate cover.

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

B. *Basis of Accounting*

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

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

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

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

In accordance with GASB Statement No. 34, certain expenses are netted against revenues as allowances. The following schedule presents revenue allowances for the years ended June 30, 2006 and 2005:

Revenue	2006	2005
Tuition and fees	$16,682,607	$13,025,482
Patient services	41,800,569	34,695,589
Sales and services	32,597	14,667
Auxiliary enterprises	851,665	911,203

C. Inventories

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

D. Research and Development Costs

Research and development costs of ARUP are expensed as incurred. These costs for the year ended June 30, 2006, were approximately $6,920,000.

E. Compensated Absences & Early Retirement Benefits

Employees' vacation leave is accrued at a rate of eight hours each month for the first five years and increases to a rate of 16.67 hours each month after fifteen years of service. There is no requirement to use vacation leave, but a maximum of thirty days plus one-year accrual may be carried forward at the beginning of each calendar year. Employees are reimbursed for unused vacation leave upon termination and vacation leave is expended when used or reimbursed. The liability for vacation leave at June 30, 2006, was approximately $34,203,000.

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

In addition, the University may provide early retirement benefits, if approved by the Administration and by the Board of Trustees, for certain employees who have attained the age of 60 with at least fifteen years of service and who have been approved for the University's early retirement program. Currently, 99 employees participate in the early retirement program. The University pays each early retiree an annual amount equal to the lesser of 20% of the retiree's final salary or their estimated social security benefit, as well as health care and life insurance premiums, which is approximately 50% of their early retirement salary, until the employee reaches full social security retirement age. The amount recognized on the financial statements was calculated at the discounted present value of the projected future costs. The discount rate used was based on the average rate earned by the University on cash management investments for the fiscal year. The funding for these early retirement benefits is provided on a pay-as-you-go basis. For the year ended June 30, 2006, these expenditures were approximately $1,567,000.

F. Construction

The Utah State Division of Facilities Construction and Management (DFCM) administers most of the construction of facilities for state institutions, maintains records, and furnishes cost information for recording plant assets on the books of the University. Interest expense incurred for construction of capital facilities is considered immaterial and is not capitalized. Construction projects administered by DFCM that were started prior to fiscal year 2002 and are not completed are recorded as Construction in Progress. Construction projects beginning in fiscal year 2002 and after will not be recorded on the books of the University until the facility is available for occupancy.

G. Disclosures

Certain financial information for fiscal year ended June 30, 2005 is included for comparison only and is not complete. Complete information is available in the separately issued financial statements for that year.

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

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

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

At June 30, 2006, cash and cash equivalents and short-term investments consisted of:

Cash and Cash Equivalents	
Cash	$ (14,351,099)
Money market funds	5,880,227
Time certificates of deposit	64,410,699
Obligations of the U.S. Government and its agencies	120,358,005
Utah Public Treasurer's Investment Fund	407,655,480
Total (fair value)	$583,953,312

Short-term Investments	
Time certificates of deposit	$ 6,000,000
Obligations of the U.S. Government and its agencies	259,747,974
Total (fair value)	$265,747,974

3. INVESTMENTS

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

UURF receives, in exchange for patent rights, common stock of newly organized companies acquiring these patents. Inasmuch as the stock is ordinarily not actively traded, the fair value is ordinarily not ascertainable and any realization from the sale of the stock is often uncertain. Therefore, such stock is recorded by UURF at a nominal value. Those stocks that are publicly traded are recorded at their fair value on June 30, 2006.

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, 2006, 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 available for authorization for expenditure at June 30, 2006, was approximately $81,437,000. The net appreciation is a component of restricted expendable net assets.

At June 30, 2006, the investment portfolio composition was as follows:

Obligations of the U.S.	
Government and its agencies	$ 58,999,170
Mutual funds	375,217,260
Common and preferred stocks	13,865,487
Total (fair value)	$ 448,081,917

4. DEPOSITS AND INVESTMENTS

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

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

As of July 1, 2005 for endowment funds, the University follows the requirements of the Uniform Management of Institutional Funds Act (UMIFA) and State Board of Regents Rule 541, Management and Reporting of Institutional Investments (Rule 541).

Deposits

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

At June 30, 2006, the carrying amounts of the University's deposits and bank balances were $59,936,316 and $82,253,232, respectively. The bank balances of the University were insured for $200,000, by the Federal Deposit Insurance Corporation. The bank balances in excess of $200,000 were uninsured and uncollateralized, leaving $82,053,232 exposed to custodial credit risk. The University's policy for reducing this risk of loss is to deposit all such balances in qualified depositories, as defined and required by the Act.

Investments

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

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

The UMIFA and Rule 541 allow the University to invest endowment funds (including gifts, devises, or bequests of property of any kind from any source) in any of the above investments or any of the following subject to satisfying certain criteria: professionally managed pooled or commingled investment funds registered with the Securities and Exchange Commission or the Comptroller of the Currency (e.g., mutual funds); professionally managed pooled or commingled investment funds created under 501(f) of the Internal Revenue Code which satisfy the conditions for exemption from registration under Section 3(c) of the Investment Company Act of 1940; any investment made in accordance with the donor's directions in a written instrument; and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, and private real estate assets or absolute return and long/short hedge funds.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the 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.

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 or the UMIFA and Rule 541, as applicable. For non-endowment funds, Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years. For endowment funds, Rule 541 is more general, requiring only that investments be made as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowments and by exercising reasonable care, skill, and caution.

As of June 30, 2006, the University had debt securities and maturities as shown in *Figure 1*.

Figure 1.

Investment Type	Fair Value	Investment Maturities (in years) Less than 1	1 - 5	6 - 10
Money market mutual funds	$ 1,736,610	$ 1,736,610		
Utah Public Treasurer's Investment Fund	407,655,480	407,655,480		
U.S. Treasuries	273,930,144	210,010,974	$63,919,170	
U.S. Agencies	165,175,005	165,175,005		
Mutual bond funds	97,871,591		4,690,248	$93,181,343
Totals	$946,368,830	$784,578,069	$68,609,418	$93,181,343

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, the UMIFA, and Rule 541, as previously discussed.

At June 30, 2006, 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 its investments that are in the possession of an outside party. The University's policy for reducing its exposure to custodial credit risk is to comply with applicable provisions of the State Money Management Act. As required by the Act, all applicable securities purchased were delivered versus payment and held in safekeeping by a bank. Also, as required, the ownership of book-entry-only securities, such as U.S. Treasury or Agency securities, by the University's custodial bank was reflected in the book-entry records of the issuer and the University's ownership was represented by a receipt, confirmation, or statement issued by the custodial bank.

At June 30, 2006, the University's custodial bank was both the custodian and the investment counterparty for $409,392,900 of U.S. Treasury and Agency securities purchased by the University and $4,967,749 of U.S. Treasury securities were held by the custodial bank's trust department but not in the University's name.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with the Rules of the State Money Management Council or the UMIFA and Rule 541, as applicable. Rule 17 of the State Money Management Council limits non-endowment fund investments in a single issuer of commercial paper and corporate

Figure 2.

Investment Type	Fair Value	Quality Rating AAA	Unrated	No Risk
Money market mutual funds	$ 1,736,610	$ 309,418	$ 1,427,192	
Utah Public Treasurer's Investment Fund	407,655,480		407,655,480	
U.S. Treasuries	273,930,144			$273,930,144
U.S. Agencies	165,175,005	165,175,005		
Mutual bond funds	97,871,591		97,871,591	
Totals	$946,368,830	$165,484,423	$506,954,263	$273,930,144

obligations to 5-10% depending upon the total dollar amount held in the portfolio. For endowment funds, Rule 541 requires that a minimum of 25% of the equity portfolio must be invested in companies with an average market capitalization of at least $10 billion; also a minimum of 25% of the overall endowment portfolio should be invested in investment grade fixed income securities as defined by Moody's Investors Service or Standard & Poor's. The overall endowment portfolio cannot consist of more than 75% equity investments. Rule 541 also limits investments to no more than 3% in any one sector fund that is concentrated within one sector of the U.S. market and no more than 5% in equity or fixed income funds of developing markets. It also limits investments in alternative investment funds, as allowed by Rule 541, to between 0% and 30% based on the size of the University's endowment fund.

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, 2006, including approximately $1,595,000, $25,289,000 and $25,102,000 of noncurrent notes, loans and pledges receivable, respectively:

Accounts	$234,400,831
Contracts and grants	35,681,493
Notes	1,755,611
Loans	30,914,052
Pledges	27,381,230
Interest	2,780,277
	332,913,494
Less allowances for bad debt	(47,720,500)
Receivables, net	$285,192,994

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 extend to fifty years on buildings and improvements and from three to eight years on equipment. Land, art and special collections, and construction in progress are not depreciated.

At June 30, 2006, the University had outstanding commitments for the construction and remodeling of University buildings of approximately $28,081,000.

Capital assets at June 30, 2006, are shown in *Figure 3.*

8. PENSION PLANS AND RETIREMENT BENEFITS

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

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

Figure 3.	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	$1,121,663,881	$ 23,893,590	$ 9,102,998	$1,136,454,473
Infrastructure & improvements	131,765,144	6,470,812		138,235,956
Land	17,267,135			17,267,135
Equipment	485,517,133	53,452,669	32,715,109	506,254,693
Library materials	144,049,652	5,152,037	2,563,858	146,637,831
Art and special collections	36,019,567	4,569,527	1,160,528	39,428,566
Construction in progress	86,659,444	71,666,908	19,349,245	138,977,107
Total cost	2,022,941,956	165,205,543	64,891,738	2,123,255,761
Less accumulated depreciation				
Buildings	443,155,863	42,088,642	6,320,945	478,923,560
Infrastructure & improvements	70,043,152	7,306,398		77,349,550
Equipment	334,486,585	44,230,528	33,422,778	345,294,335
Library materials	80,476,617	3,420,973		83,897,590
Total accumulated depreciation	928,162,217	97,046,541	39,743,723	985,465,035
Capital assets, net	$1,094,779,739	$ 68,159,002	$25,148,015	$1,137,790,726

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

TIAA-CREF provides individual retirement fund contracts with each participating employee. Benefits provided to retired employees are based on the value of the individual contracts and the estimated life expectancy of the employee at retirement. Contributions by the University to the employee's contract become vested at the time the contribution is made. Employees are eligible to participate from the date of employment and are not required to contribute to the fund. For the year ended June 30, 2006, the University's contribution to this defined contribution pension plan was 14.20% of the employees' annual salaries. Additional contributions are made by the University based on employee contracts. The University has no further liability once contributions are made. Certain UUHC employees hired prior to January 1, 2001, were fully vested as of that date. Employees hired subsequent to January 1, 2001, are eligible to participate in the plan one year after hire date and vest after six years. The University's contribution for these health clinic employees was 3.00% of the employees' annual salaries.

The ARUP defined contribution pension and profit sharing plans provide retirement benefits for all employees who have attained certain tenure-based and hours-worked thresholds. Employees are fully vested in both plans after five years of service. For the year ended June 30, 2006, 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, 2006, 2005, and 2004, the University's contributions to the Systems were equal to the required amounts, as shown in *Figure 4*.

9. DEFERRED REVENUE

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

Figure 4.

	2006	2005	2004
State and School Contributory Retirement System	$ 1,489,378	$ 1,563,900	$ 1,419,412
State and School Noncontributory Retirement System	22,257,303	22,375,155	20,178,128
Public Safety Noncontributory Retirement System	289,291	295,083	279,877
TIAA-CREF	65,126,133	60,472,570	56,352,292
Pension plan	3,140,908	2,743,021	2,646,171
Profit sharing plan	4,723,787	3,353,435	3,173,865
Total contributions	$97,026,800	$90,803,164	$84,049,745

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, 2006, was $85,413,161.

In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of $7,488,576 as of June 30, 2006, based on a predetermined formula. The fair value of this stock as of June 30, 2006 cannot be determined because the stock is not actively traded.

11. RISK MANAGEMENT

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

In addition, the University maintains self-insurance funds for health care, dental, and auto/physical damage, as well as hospital and physicians malpractice liability self-insurance funds. The malpractice liability self-insurance funds are held in trust with an independent financial institution in compliance with Medicare reimbursement regulations. Based on an analysis prepared by an independent actuary, the administration believes that the balance in the trust funds as of June 30, 2006, is adequate to cover any claims incurred through that date. The University and UUHC have a "claims made" umbrella malpractice insurance policy in an amount considered adequate by its respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances.

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

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

The University has recorded the investments of the malpractice liability trust funds at June 30, 2006, and the estimated liability for self-insurance claims at that date in the Statement of Net Assets. The income on fund investments, the expenses related to the administration of the self-insurance and malpractice liability trust funds, and the estimated provision for the claims liability for the year then ended are recorded in the Statement of Revenues, Expenses, and Changes in Net Assets.

Figure 5.

	2006	2005
Estimated claims liability - beginning of year	$ 52,869,024	$ 44,198,248
Current year claims and changes in estimates	129,783,800	124,615,602
Claim payments, including related legal and administrative expenses	(128,147,310)	(115,944,826)
Estimated claims liability - end of year	$ 54,505,514	$ 52,869,024

12. INCOME TAXES

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

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

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

13. HOSPITAL REVENUE

A. Net Patient Service Revenue

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

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

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

B. Charity Care

UUHC maintains records to identify and monitor the level of charity care it provides. Based on established rates, the charges foregone as a result of charity during the year ended June 30, 2006, were approximately $23,805,000.

14. LEASES

A. Revenue

UURF receives lease revenues from noncancellable sublease agreements with tenants of the Research Park and from tenants occupying six buildings owned by UURF. The lease revenue to be received from these noncancellable leases for each of the subsequent five years is $6,500,000, and for nineteen 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 $125,401,263 for buildings and equipment, respectively. Accumulated depreciation for these buildings and equipment amounts to $2,003,906 and $74,026,597, respectively. Capital leases of ARUP are guaranteed by the University. Operating leases and related assets are not recorded in the Statement of Net Assets. Payments are recorded as expenses when incurred and amount to approximately $23,201,000 for the University and $5,063,000 for component units for the year ended June 30, 2006. Total operating lease commitments for the University include approximately $25,628,850 of commitments to component units.

Included in the above component unit lease expenses are leases by ARUP for its principal laboratory and office buildings, under long-term agreements, from a partnership in which one of its directors is a principal. The agreements have initial terms of fifteen years with two five-year renewal options and include rent increases of two to three percent annually in the sixth and eleventh years from the commencement of the lease. Total lease payments for the year ended June 30, 2006 were $4,732,419.

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

Future minimum lease commitments for operating and capital leases as of June 30, 2006 are shown in *Figure 6*.

15. BONDS PAYABLE AND OTHER LONG-TERM LIABILITIES

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

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

Figure 6.

Fiscal Year	Operating	Capital
2007	$ 30,466,415	$ 14,990,527
2008	28,899,357	13,728,799
2009	27,062,531	26,116,097
2010	23,029,836	8,591,556
2011	21,669,670	24,032,559
2012 – 2016	90,444,679	11,974,941
2017 – 2021	53,553,542	2,883,042
2022 – 2026	39,013,947	1,297,593
2027 – 2029	831,038	
Total future minimum lease payments	$314,971,015	103,615,114
Amount representing interest		(16,931,279)
Present value of future minimum lease payments		$ 86,683,835

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, 2006, is $6,425,000.

The Series 1997A Auxiliary and Campus Facilities Revenue Bonds currently bear interest at a weekly rate in accordance with the bond provisions. When a weekly rate is in effect, the Series 1997A Bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's tender agent. The University's remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. If any Series 1997A Bonds cannot be remarketed to new holders, the tender agent is required to draw on an irrevocable standby bond purchase agreement to pay the purchase price of the bonds delivered to it. The standby bond purchase agreement is with J.P. Morgan Chase Bank and is valid through July 30, 2010. The University pays a quarterly fee for the services provided by J.P. Morgan Chase Bank. No funds have been drawn against the standby bond purchase agreement. The interest requirement for the Series 1997A Bonds is calculated using an interest rate of 4.01%, which is the rate in effect at June 30, 2006.

On April 28, 2006, the University entered into a loan agreement with the federal government for the benefit of the Huntsman Cancer Institute (HCI) and Huntsman Cancer Hospital (HCH). Pursuant to the Health Care Infrastructure Improvement Program, the University has qualified for a loan in the amount of $100,000,000. The loan is administered by the Centers for Medicare and Medicaid Services (a division of the Department of Health and Human Services) pursuant to Section 1897, Title XVIII, of the Social Security Act. The University intends to use the loan proceeds to retire certain debt issued to finance HCI and HCH. The loan bears an interest rate of 11.875% and is not secured by net revenues of the University. The proposed rules relating to the loan include a Loan Forgiveness Program whereby the full amount of the loan may be forgiven based upon criteria that the University, HCI, and HCH expect to meet. The proposed rules relating to loan forgiveness were published in the Federal Register. Commensurate with these rules, HCI and HCH were required to notify the Centers for Medicare and Medicaid Services of their intention to apply for loan forgiveness, which they did and submitted their plan and qualifications for achieving complete forgiveness of this loan. It is uncertain whether this loan will be forgiven in the next year or during the five year term of payment deferral. In the event that the loan is not forgiven, all loan proceeds will be returned to the federal government.

The following schedule lists the outstanding bonds payable of the University at June 30, 2006:

Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2006
Auxiliary and Campus Facilities	3/1/87	2014	3.750% - 6.750%	$ 11,140,000	$ 215,000	$ 1,490,000
Auxiliary and Campus Facilities	7/30/97	2027	Variable	52,590,000	1,060,000	13,000,000
Hospital Revenue Refunding	12/1/97	2006	4.750% - 5.500%	24,615,000	3,414,825	3,414,825
Hospital Revenue	6/1/98	2013	5.250% - 5.375%	25,020,000	180,160	6,637,509
Auxiliary and Campus Facilities Revenue and Refunding	7/1/98	2016	4.100% - 5.250%	120,240,000	2,265,741	58,499,843
Auxiliary and Campus Facilities	5/1/99	2014	4.000% - 4.800%	5,975,000	407,495	3,812,112
Research Facilities Revenue	7/13/00	2020	5.000% - 5.750%	17,585,000	667,945	2,913,465
Auxiliary and Campus Facilities	7/18/01	2021	3.500%- 5.125%	2,755,000	113,822	2,319,757
Hospital Revenue	8/7/01	2022	5.000%- 5.500%	26,670,000	15,165	11,688,305
Research Facilities Revenue	6/30/04	2019	3.000%- 4.700%	9,685,000	527,088	8,635,171
Research Facilities Revenue	2/15/05	2025	3.000%- 5.000%	5,515,000	204,502	5,475,088
Research Facilities Revenue	6/07/05	2020	3.000%- 5.000%	20,130,000	1,360,722	19,520,712
Hospital Revenue Refunding	7/14/05	2018	4.500%- 5.000%	30,480,000	(895,319)	30,541,534
Auxiliary and Campus Facilities Revenue Refunding	8/2/05	2021	3.000%- 5.000%	42,955,000	(24,382)	42,918,438
Total					$9,512,764	$210,866,759

UURF has purchased three buildings with two mortgages that are guaranteed by the University. The remaining amounts of the mortgages are $6,260,776 at 8.87% interest and $3,068,127 at 7.15% interest. The mortgages will be paid off on April 1, 2020 and September 1, 2021, respectively. In addition, UURF agreed to bear 42.04% of the cost to renovate the building at 417 Wakara Way for the Health Science Center. The remaining balance of debt related to those costs is $3,615,440 at interest rates ranging from 3.00% to 4.70%.

The following schedule summarizes the changes in long-term liabilities for the year ended June 30, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$238,100,262	$ 71,047,533	$ 98,281,036	$210,866,759	$ 9,512,764
Capital leases payable	85,291,905	15,171,471	13,779,541	86,683,835	10,864,701
Notes & contracts payable	15,165,986	100,304,142	704,769	114,765,359	854,047
Total long-term debt	338,558,153	186,523,146	112,765,346	412,315,953	21,231,512
Compensated absences	34,991,809	26,304,517	22,870,920	38,425,406	4,223,173
Deposits & other liabilities	88,734,692	93,029,469	77,390,134	104,374,027	95,354,730
Total long-term liabilities	$462,284,654	$305,857,132	$213,026,400	$555,115,386	$120,809,415

Maturities of principal and interest requirements for bonds, notes and contracts payable are shown in the following schedule. Payments for the years 2011 through 2031 include payments on the Health Care Infrastructure Improvement Program loan, as described above, in the amount of $100,000,000 for principal and $251,112,097 for interest. These amounts are expected to be forgiven.

	Payments	
Fiscal Year	Principal	Interest
2007	$ 21,231,512	$ 14,843,532
2008	20,567,990	13,899,314
2009	35,076,450	12,670,010
2010	18,950,405	11,324,112
2011	36,218,693	12,873,389
2012 – 2016	69,976,770	124,040,083
2017 – 2021	55,748,611	109,501,472
2022 – 2026	66,681,027	62,402,402
2027 – 2031	87,864,495	23,138,907
Total	$412,315,953	$384,693,221

16. RETIREMENT OF DEBT

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

In addition, the University issued on July 14, 2005, Hospital Revenue Refunding Bonds Series 2005A in the amount of $30,480,000 to partially advance refund $18,785,000 of Hospital Revenue Bonds Series 1998 and $15,320,000 of Hospital Revenue Bonds Series 2001. Also, on August 2, 2005, the University issued Auxiliary and Campus Facilities Revenue Refunding Bonds Series 2005A in the amount of $42,955,000 to partially advance refund $56,670,000 of Auxiliary and Campus Facilities Revenue and Refunding Bonds Series 1998. These refundings resulted in a reduction of the University's aggregate debt service payments of approximately $23,455,000 over the next twenty-three years and a present value economic gain of approximately $11,645,000. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. The total principal amount of defeased bonds held in irrevocable trusts at June 30, 2006, is $105,010,000.

17. FUNCTIONAL CLASSIFICATION OF EXPENSES

The following schedule presents operating expenses by functional classification for the year ended June 30, 2006:

Function	Amount (in thousands)
Instruction	$ 248,885
Research	215,018
Public service	354,797
Academic support	66,299
Student services	18,246
Institutional support	35,780
Operation & maintenance of plant	48,335
Student aid	32,071
Other	361,568
Hospital	551,668
Total	$1,932,667

18. PLEDGED BOND REVENUE

The University issues revenue bonds to provide funds for the construction and renovation of major capital facilities and the acquisition of capital equipment for the University. Investors in these bonds rely solely on the net revenue pledged by the following activities for the retirement of outstanding bonds payable.

Auxiliary Enterprises - is comprised of specific auxiliary enterprises, namely: University 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 - is comprised of the University Hospitals, the University Neuropsychiatric Institute, and other clinics that provide health and psychiatric services to the community.

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

The following schedule presents the net revenue pledged to the applicable bond system and the principal and interest paid for the year ended June 30, 2006.

	Bond Systems		
	Auxiliary & Campus Facilities	Hospital	Research Facilities
Revenue			
Operating revenue	$60,993,763	$662,408,664	$ 60,778,430
Nonoperating revenue	5,730,213	5,026,272	
Total revenue	66,723,976	667,434,936	60,778,430
Expenses			
Operating expenses	49,451,886	583,209,847	48,121,009
Nonoperating expenses		146,515	
Total expenses	49,451,886	583,356,362	48,121,009
Net pledged revenue	$17,272,090	$ 84,078,574	$ 12,657,421
Principal paid and interest expense	$9,308,427	$4,987,667	$4,365,712

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ANNUAL FINANCIAL REPORT PREPARED BY:

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