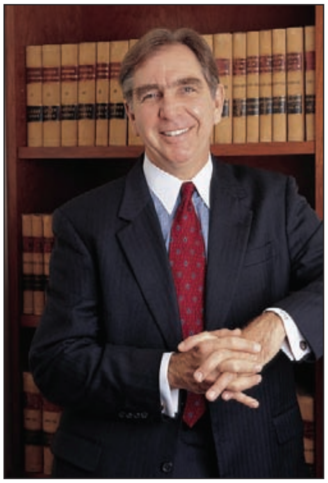
ANNUAL FINANCIAL REPORT
2007

A Component Unit of the State of Utah

THE UNIVERSITY OF UTAH

Contents

Message from the President



As Utah's flagship institution of higher education, the University of Utah stands tall among the nation's top universities. The University's "reach" is vast—positively influencing intellectual, economic, and cultural life for all Utah's citizens and communities, and indeed for countless people throughout the nation and world. Our international focus on research and teaching; our interdisciplinary infrastructure; and our centers of excellence in business, science, law, medicine, technology, and the arts are contributing to the greater good. In addition, new and evolving partnerships on campus and with communities and state government are creating world-class synergy while simultaneously enhancing student engagement. Together, this sense of academic synergy is empowering us to meet the challenges presented by an ever-shrinking globe and to take full advantage of the extraordinary opportunities this changing world offers.

The extent of the University's reach and the synergism it fosters are perhaps best epitomized in the recent announcement that Dr. Mario R. Capecchi, distinguished professor of human genetics and biology at the University of Utah's Eccles Institute of Human Genetics and a Howard Hughes Medical Institute Investigator, has won the 2007 Nobel Prize in Physiology or Medicine. The prize recognizes Dr. Capecchi's pioneering development of a gene-targeting technique that has revolutionized the study of mammalian biology and allowed the creation of animal models for hundreds of human diseases. His groundbreaking work will have an incalculable impact on generations to come—enabling people across the globe to live healthier, longer, and more productive lives. Upon receiving notification of this award, Dr. Cappechi stated that "this is a tremendous honor for our University, our Department of Human Genetics, for all the members of my laboratory, past and present who have contributed to this work."

We celebrate this pinnacle of scientific achievement for one of our own, and recognize that it resulted from years of dedicated work and collaboration that was, at the time, less widely known. There are many great examples of other promising, but less widely known, projects and initiatives taking place throughout the University—in classrooms, libraries, laboratories, clinics, and offices. We are working collectively to improve the future. Of numerous examples that could be cited, I highlight just two:

- We are in the midst of a University-wide initiative to reach out to former U students who have completed most of their coursework but—for whatever reasons—have not completed their bachelor's degrees. This initiative provides academic advising, offers individualized connections with academic programs and departments, and perhaps most important, makes available a team of University agencies that can identify financial resources, child care options, and career opportunities to facilitate success.

  We have identified more than 4,000 students who, in the last 10 years, completed 90 or more credits at the University, but did not complete their degree. We are seeking them out and inviting them back. They deserve the opportunity to reach their dreams.

- We are also in the midst increasing our commitment to a sustainable environment in new and exciting ways. In the academic realm, we have augmented opportunities for students and faculty to be involved in environmental issues and dialogue. In addition to an undergraduate Environmental Studies program, an Environmental Communication division within the Communication Department, and the Wallace Stegner Center, we have established a new Environmental Humanities graduate program. After completing this program, graduates are empowered with the experience and knowledge to enter a number of fields—academic, governmental, media, legal, and business—that require expertise in environmental theory, sustainability, and policy.

We have also established an Office of Sustainability to support our commitment to becoming a more sustainable campus. University students played a key role in instigating and writing a proposal for establishment of this office. The office will be a focal point for promoting practices and policies, such as the existing recycling and utility conservations programs, to help the University operate more efficiently and reduce the U's impact on both the natural environment and the surrounding community. It will produce a baseline ecological footprint analysis, identify future sustainability targets, and will also promote sustainability-related curriculum while working toward use of the campus itself as a laboratory for sustainability in teaching and research.

I am pleased to report that the University remains in good financial condition, thanks to the efforts and generosity of a broad community of students, faculty, administrators, staff, alumni, and friends. I believe the accompanying statements detailing our assets, revenues, endowments, investments and other financial statistics present a positive picture. Like any picture, however, it represents a limited view of its subject. As you review this report I urge you to also contemplate the extraordinary enterprise it represents. The University of Utah is dedicated in the fullest sense to the greater good through teaching, research, and public service. Its reach is truly astounding.

Michael K. Young

STATE OF UTAH
Office of the State Auditor
UTAH STATE CAPITOL COMPLEX
EAST OFFICE BUILDING, SUITE E310
P.O. BOX 142310
SALT LAKE CITY, UTAH 84114-2310
(801) 538-1025
FAX (801) 538-1383

Auston G. Johnson, CPA
UTAH STATE AUDITOR

DEPUTY STATE AUDITOR:
Joe Christensen, CPA

FINANCIAL AUDIT DIRECTORS:
H. Dean Eborn, CPA
Deborah A. Empey, CPA
Stan Godfrey, CPA
Jon T. Johnson, CPA

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, 2007, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Utah Hospitals and Clinics or the University's blended component units, which represent approximately 21% ($688,998,000) of total assets and 42% ($1,006,499,000) 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 2006 financial statements and, in our report dated September 29, 2006, we expressed an unqualified opinion, based on our audit and the reports of other auditors, on the financial statements.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2007, 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 October 26, 2007 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the 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

Auston G. Johnson, CPA
Utah State Auditor
October 26, 2007

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, 2007, with selected comparative information for the year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University is a comprehensive public institution of higher learning with approximately 28,600 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 and 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, 2007, with assets of $3.3 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 $463.1 million to $2.5 billion at June 30, 2007.

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, 2007 and 2006 in *Figure 1.*

Fiscal year 2007 revenues before change in fair value of investments increased 17.3%, or $371.9 million, while expenses increased 8.0%, or $157.0 million. This resulted in a net gain before changes in fair value of investments of $398.0 million for fiscal year 2007, as compared to $183.1 million for fiscal year 2006.

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 7.7% during the past ten years.

USING THE FINANCIAL STATEMENTS

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

Revenues and expenses are categorized as operating or nonoperating and other net asset additions as capital contributions or additions to permanent endowments. Significant recurring sources of the University's revenues, including state appropriations, gifts and investment income, are considered nonoperating, as defined by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.* Nonoperating revenues totaled $480.7 million and $342.5 million for the years ended June 30, 2007 and 2006, respectively. Nonoperating expenses, which include interest expense, totaled $30.9 million and $33.6 million for the years ended June 30, 2007 and 2006, 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, 2007 and 2006, scholarship and fellowship expenses totaled $23.8 million and $21.6 million, respectively. In addition, scholarships and fellowships in the amount of $18.9 million and $17.5 million for the years ended June 30, 2007 and 2006, respectively, are reported as a reduction of tuition and fees and auxiliary enterprises revenue.

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

Figure 1.

	2007	2006
	(in thousands)	
Total revenues before change in fair value of investment	$2,521,256	$2,149,334
Total expenses	2,123,266	1,966,266
Increase in net assets before change in fair value of investments	397,990	183,068
Increase in fair value of investments	65,146	27,250
Increase in net assets	$ 463,136	$ 210,318

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, 2007 and 2006 is shown in *Figure 2.*

A review of the University's Statement of Net Assets at June 30, 2007 and 2006, 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 7.6 months of total operating expenses (excluding depreciation). Current cash and investments totaled $937.5 million at June 30, 2007 and $822.9 million at June 30, 2006. Net receivables increased from $233.2 million at June 30, 2006 to $273.4 million at June 30, 2007.

Current liabilities consist primarily of trade accounts, accrued compensation, deposits, and other liabilities, which totaled $301.5 million at June 30, 2007, as compared to $270.2 million at June 30, 2006. Current liabilities also include deferred revenue, and the current portion of bonds payable. Total current liabilities increased $31.3 million during fiscal year 2007.

Figure 2.

	2007	2006
	(in thousands)	
Current assets	$1,254,949	$1,094,249
Noncurrent assets		
Endowment and other investments	684,983	474,858
Receivables	69,522	51,985
Capital assets, net	1,248,432	1,137,791
Other	17,406	18,620
Total assets	3,275,292	2,777,503
Current liabilities	301,528	270,175
Noncurrent liabilities	437,605	434,305
Total liabilities	739,133	704,480
Net assets	$2,536,159	$2,073,023

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

Fiscal year 2007 represented the end of a very good five year period with respect to investment performance for the University's endowment funds. The five year average annualized return was 11.5% through the end of the fiscal year. Prudent spending and the structure of the University's portfolio should minimize the impact of any short term market swings. For the year ended June 30, 2007, the University of Utah endowment pool returned 17.0% compared to 9.6% for the year ended June 30, 2006. 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 (20.6% gain and 6.1% gain, respectively, for fiscal year 2007). The net gain on the endowment pool for the year ended June 30, 2007 totaled $52.6 million compared to a gain of $24.6 million for the year ended June 30, 2006.

Payout from the endowment pool is subject to a spending policy which determines a distribution rate that will be used to allocate funds to University departments based on the total market value of the pool. The purpose of the spending policy is to establish a distribution rate that over time will generate returns adequate to continue support for future expenses in perpetuity assuming moderate levels of inflation. During the year ended June 30, 2007, the spending policy was 4.0% of the twelve quarter moving average of unit market values.

The endowment pool is managed on a total return basis where funds available for distribution are derived from dividends earned, interest and unrealized gains. While the endowment pool earned $11.9 million in fiscal year 2007, the University distributed $13.6 million to operations. The difference of $1.7 million was allocated from unrealized gains.

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 7.7%, paid out an average of 4.1%, 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 and similar funds at the University totaled $25.1 million and $19.3 million for the fiscal years 2007 and 2006, 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 $426.0 million in fiscal year 2007, as compared to $165.2 million in fiscal year 2006. 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, 2007, totaled $92.0 million that includes projects in numerous buildings across the campus. Significant projects include: a new patient services wing of the University Hospital; continued renovation of the Marriott Library; geology and geophysics office, lab, and classroom facilities; and equipment for a new cogeneration power plant.

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

Bonds payable totaled $302.4 million and $210.9 million at June 30, 2007 and 2006, respectively. Two new Hospital bond series were issued in fiscal year 2007; the Hospital Revenue and Refunding Bonds Series 2006A and the Hospital Revenue Bonds Series 2006B. Proceeds from these bonds were used to finance a portion of the costs of the acquisition, construction, equipping and furnishing certain Hospital facilities and to refund certain outstanding hospital revenue bonds. Research Facilities Revenue Bond Series 2007A was also issued, the proceeds of which were used to acquire, refurbish and equip a building for research purposes. In addition, Certificates of Participation were issued to refinance certain energy saving projects and to construct a new power plant. 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, 2007, the University has 3.8 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 $113.2 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, 2007 and 2006 is shown in *Figure 3*.

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

Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 34. *Graph 1* (operating revenue) and *Graph 2* (nonoperating revenue) are illustrations of revenues by source, which were used to fund the University's operations for the year ended June 30, 2007 (amounts are presented in thousands of dollars).

The University continues to face significant financial pressure, particularly in the areas of compensation and benefits, which represent 53.4% 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.

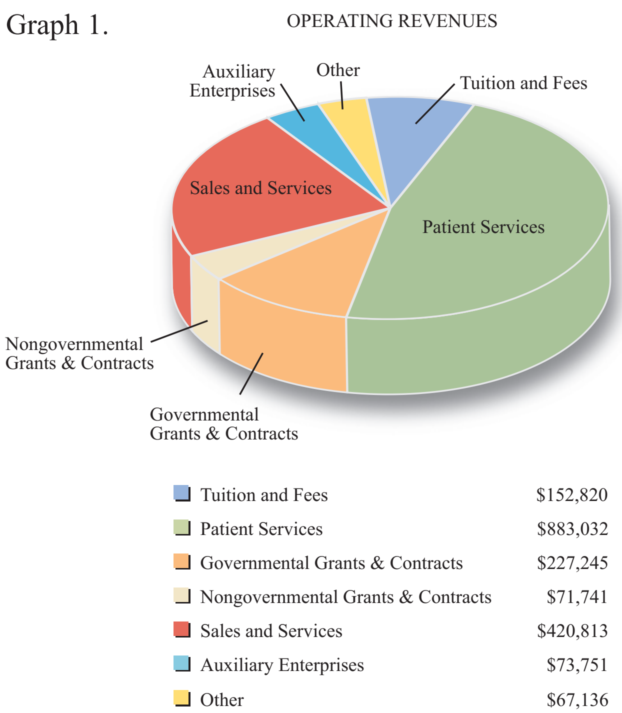
Tuition and state appropriations are the primary sources of funding for the University's academic programs. Student tuition and fees, net of allowances for scholarships and fellowships, increased $10.4 million, or 7.3% to $152.8 million in fiscal year 2007. State appropriations increased 8.0% or $20.1 million to $269.7 million in fiscal year 2007.

While tuition and state appropriations fund a significant percentage of the University's academic and administrative costs, private support has

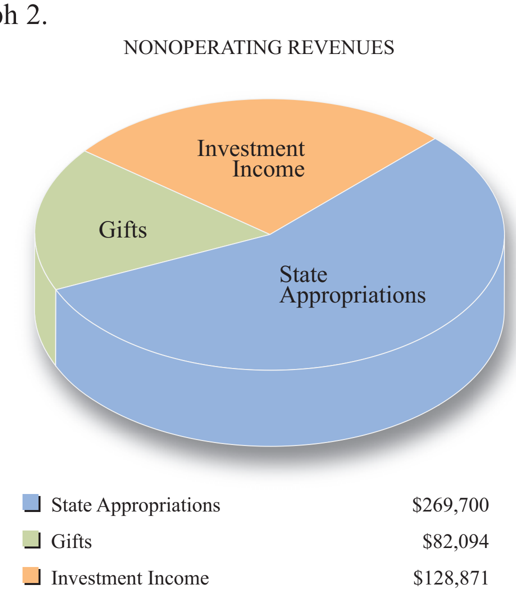
Figure 3.

	2007	2006
	(in thousands)	
Operating revenues		
Tuition and fees	$ 152,820	$ 142,432
Patient services	883,032	821,704
Grants and contracts	298,986	300,744
Sales and services	420,813	382,902
Auxiliary enterprises	73,751	70,433
Other	67,136	72,116
Total operating revenues	1,896,538	1,790,331
Operating expenses	2,092,386	1,932,667
Operating loss	(195,848)	(142,336)
Nonoperating revenues (expenses)		
State appropriations	269,700	249,608
Gifts	82,094	26,248
Investment income	128,871	66,620
Interest expense	(18,229)	(14,801)
Other	(12,651)	(18,798)
Net nonoperating revenues	449,785	308,877
Capital appropriations	58,397	9,014
Capital and endowment grants and gifts	150,802	34,763
Total capital and endowment revenues	209,199	43,777
Increase in net assets	463,136	210,318
Net assets - beginning of year	2,073,023	1,862,705
Net assets - end of year	$2,536,159	$2,073,023

Graph 1.



Graph 2.



been, and will continue to be, essential to the University's academic success. Private support in the form of gift revenues for operations increased by 212.8%, or $55.8 million, to $82.1 million in fiscal year 2007. These positive results are indicative of the University's continued emphasis on fund raising to support critical projects and initiatives.

Revenues for grants and contracts remained stable with a slight decrease of 0.6%, or $1.8 million, to $299.0 million in fiscal year 2007, primarily related to research programs. Grant and contract revenues are generated by a broad base of schools, colleges, and research units across the University. The University receives revenues for grants and contracts from government and private sources, which provide for the recovery of direct costs and facilities and administrative (indirect) costs.

Patient care revenues increased 7.5% or $61.3 million to $883.0 million in fiscal year 2007. The majority of these revenues relate to patient care services, which are generated within UUHC under contractual arrangements with governmental payers and private insurers. Revenues sustained a relatively constant rate of growth over the last few years, primarily resulting from a growth in patient volume, demand for specialty services provided by outpatient clinics and moderate price increases for patient services.

Net investment income for the years ended June 30, 2007 and 2006, consisted of the following components:

	2007	2006
	(in thousands)	
Interest and dividends, net	$ 63,725	$39,370
Net increase in fair value of investments	65,146	27,250
Net investment income	$128,871	$66,620

Net investment income totaled $128.9 million in fiscal year 2007, as compared to $66.6 million in fiscal year 2006, which is an increase of $62.3 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 $13.6 million in fiscal year 2007, as compared to $12.0 million in fiscal year 2006. In addition, in fiscal year 2007, $1.3 million was returned to endowment principal.

Capital appropriations received from the State in fiscal year 2007, which totaled $58.4 million,

funded a portion of building renovation projects. Other revenues include capital grants and gifts and additions to permanent endowments totaling $150.8 million for the fiscal year ending June 30, 2007.

A comparative summary of the University's expenses for the years ended June 30, 2007 and 2006 follows:

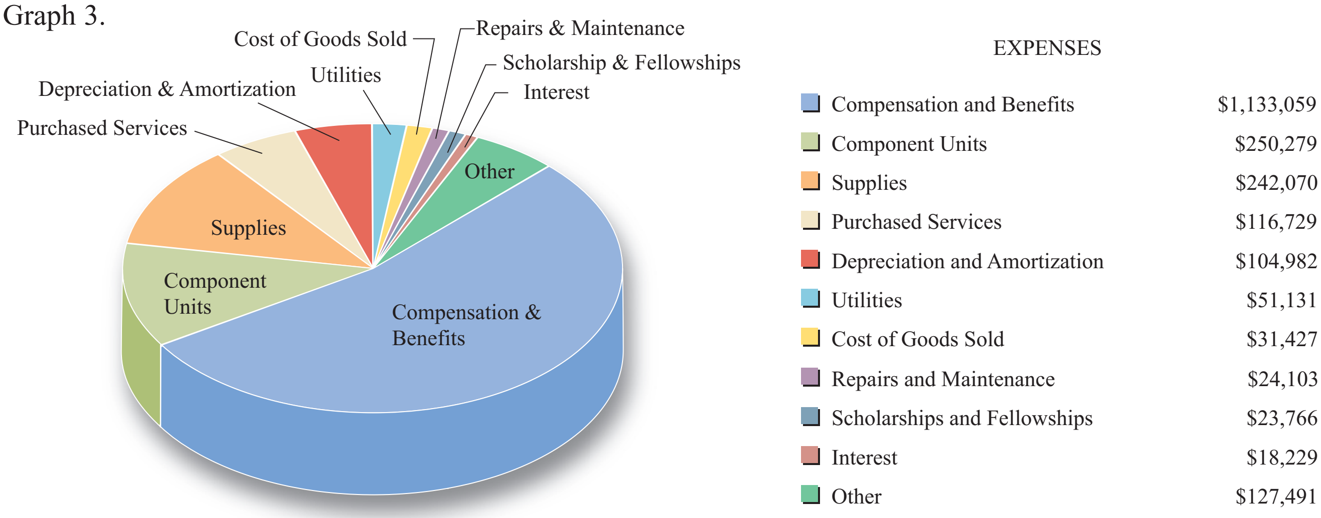
	2007	2006
	(in thousands)	
Operating		
Compensation and benefits	$1,133,059	$1,043,826
Component units	250,279	227,340
Supplies	242,070	228,806
Purchased services	116,729	103,443
Depreciation and amortization	104,982	97,475
Utilities	51,131	52,238
Cost of goods sold	31,427	29,165
Repairs and maintenance	24,103	21,004
Scholarships and fellowships	23,766	21,624
Other	114,840	107,746
Total operating	2,092,386	1,932,667
Nonoperating		
Interest and other	30,880	33,599
Total expenses	$2,123,266	$1,966,266

The University is committed to recruiting and retaining an outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. The resources expended for compensation and benefits increased 8.5%, or $89.2 million, to $1.1 billion in fiscal year 2007. Of this increase, compensation increased 8.3%, or $67.7 million, as a result of annual increases and the hiring of additional employees. The related employee benefits increased 9.3% or $21.5 million.

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, 2007 and 2006 follows:

	2007	2006
	(in thousands)	
Instruction	$ 264,901	$ 248,885
Research	217,805	215,018
Public service	381,863	354,797
Academic support	71,286	66,299
Student services	18,743	18,246
Institutional support	43,983	35,780
Operations and maintenance of plant	49,934	48,335
Student aid	33,945	32,071
Other	391,705	361,568
Hospital	618,221	551,668
Total operating expenses	$2,092,386	$1,932,667

Graph 3.



Instruction, research, and public service expenses increased 5.6%, or $45.9 million, to $864.6 million in fiscal year 2007. Academic and institutional support expenses increased 12.9%, or $13.2 million, to $115.3 million in fiscal year 2007.

STATEMENT OF CASH FLOWS

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

The University's cash and cash equivalents increased $103.2 million due primarily to increased patient services revenue, state appropriations, gifts, and the sale and maturity of investments. This positive flow of funds was offset by funds used for personal services and the purchase of investments. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 9, include state appropriations and private gifts used to fund operating activities.

CURRENT FACTORS HAVING PROBABLE FUTURE FINANCIAL SIGNIFICANCE

The University's undergraduate enrollment has declined somewhat for the second year in a row. Graduate enrollment continues to gradually increase. Enrollment at the undergraduate level is dependent on two factors, pool and participation, that are both heavily influenced by factors within the State of Utah. The available pool of potential students, age 18 through 29, is in the midst of a modest decline, but that trend is expected to reverse within the next five years as K-8 students move into and through high school in record numbers. The participation rate is likewise lower in large part due to the State's robust economy and remarkably low unemployment rates. While both factors are currently dampening enrollment numbers, both are likely to ease within the next five years. The University is, in the meantime, adjusting its recruiting strategy while at the same time evaluating the need for additional infrastructure to support modest and sustainable growth in the future. In addition to these factors, the State recently passed legislation that makes it easier for non-resident students to qualify for in-state tuition. This may have a negative short-term impact on tuition revenue, but it is likely to have a positive long-term effect on recruiting and related tuition revenue.

The State is one of the healthiest in the nation; balancing fiscal prudence with the need to invest in its future. A large revenue surplus in fiscal year 2007 contributed to an excellent year for higher education and the coming year is likely to have the same positive impact for the University. At the same time, the State has launched the Utah Science Technology and Research (USTAR) initiative. This initiative provides funding for "strategic investments at the University of Utah and Utah State University to recruit world-class researchers, build state-of-the-art interdisciplinary research and development facilities, and to form first-rate science, innovation, and commercialization teams across the State. This initiative focuses on leveraging the proven success of Utah's research universities in creating and commercializing innovative technologies which will generate more technology-based start-up firms, higher paying jobs, and additional business activity leading to a state-wide expansion of Utah's tax base"[1]. The University has had great success in attracting world-class researchers with a proven track record of developing intellectual property to participate in this initiative.

The UUHC and the ARUP continue to be recognized as leaders in their respective fields. Financial position for each remains strong and is expected to remain so. Despite a strong outlook though, UUHC anticipates a negative impact from recent Medicare/Medicaid changes. The Centers for Medicare and Medicaid Services (CMS) (a division of the Department of Health and Human Services (DHHS)) issued a proposed rule in January 2007 to change the way Medicaid funds flow to state-owned facilities effective October 1, 2007. Congress subsequently passed legislation which imposed a moratorium on the new funds flow mechanism. This moratorium will be in effect until May 2008 and unless new legislation is enacted, the CMS rule will become effective. If the new rule, as currently written, becomes effective, next May we estimate that UUHC will experience a significant reduction in Medicaid revenues. UUHC is working with other medical centers to educate legislators on the impact to the patient population and to medical education if these funds are no longer available.

During fiscal year 2006, the University's Huntsman Cancer Institute (HCI) and the Huntsman Cancer Hospital (HCH) applied for and received significant funding from CMS, in the form of a forgivable loan. Late in the 2007 fiscal year, the University received notice from DHHS that the forgiveness provisions of this loan had been met. In the 2008 fiscal year, the loan proceeds will be used to retire certain debt issued to finance HCI and HCH facility construction, which will significantly reduce the University's debt service payments. However, with the need for expanded research, patient care, and student life facilities, comes the need to issue debt to support construction. Within the next 1-3 years, the University intends to undertake various construction projects, in some cases partially gift-funded, to support these critical areas.

Awards for sponsored programs, which include basic research, continue to be strong. The initiatives resulting from the USTAR project will certainly have a positive impact on those results as the number of research faculty increases. At the same time, however, efforts to restrain federal spending and increased competition for research funding are likely to constrain growth in research support. The University has completed its negotiation for the new facilities and administration rate study. As a result, the new rate for reimbursed overhead on federally sponsored research projects increases to 50.5% from 49.5% effective beginning in July of 2008.

Overall, the University's outlook for the foreseeable future is positive not only as a result of its strategic leadership and prudent fiscal management, but also as a beneficiary of a strong state economy.

[1] http://ustar.utah.gov/about/index.html

Financial Statements

THE UNIVERSITY OF UTAH | Statement of Net Assets

(in thousands of dollars)

As of June 30

	2007	[For Comparison Only] 2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2 & 4)	$ 551,160	$ 558,042
Short-term investments (Notes 1, 2 & 4)	386,385	264,883
Receivables, net (Note 5)	273,385	233,208
Inventory (Note 1)	32,374	30,005
Other assets (Note 6)	11,645	8,111
Total current assets	1,254,949	1,094,249
Noncurrent Assets		
Restricted cash and cash equivalents (Notes 2 & 4)	136,019	25,911
Restricted short-term investments (Notes 1, 2 & 4)	813	865
Investments (Notes 3 & 4)	220,613	158,628
Restricted investments (Notes 3 & 4)	327,538	289,454
Restricted receivables, net (Note 5)	69,522	51,985
Donated property held for sale	2,165	2,732
Other assets (Note 6)	15,241	15,888
Capital assets, net (Note 7)	1,248,432	1,137,791
Total noncurrent assets	2,020,343	1,683,254
Total assets	3,275,292	2,777,503
LIABILITIES		
Current Liabilities		
Accounts payable	84,506	63,494
Accrued payroll	73,758	62,129
Compensated absences & early retirement benefits (Note 1)	4,509	4,223
Deferred revenue (Note 9)	26,609	23,742
Deposits & other liabilities (Notes 11 & 15)	87,299	95,355
Bonds, notes and contracts payable (Notes 14, 15, & 16)	24,847	21,232
Total current liabilities	301,528	270,175
Noncurrent Liabilities		
Compensated absences & early retirement benefits (Note 1)	37,123	34,202
Deposits & other liabilities (Notes 11 & 15)	9,400	9,019
Bonds, notes and contracts payable (Notes 14, 15, & 16)	391,082	391,084
Total noncurrent liabilities	437,605	434,305
Total liabilities	739,133	704,480
NET ASSETS		
Invested in capital assets, net of related debt	927,224	828,988
Restricted for		
Nonexpendable		
Instruction	116,024	99,041
Research	37,334	32,944
Public service	56,241	45,205
Academic support	36,021	31,550
Scholarships	109,297	91,010
Other	7,038	5,284
Expendable		
Research	174,619	152,083
Public service	62,073	20,869
Academic support	53,837	52,130
Institutional support	50,133	38,979
Loans	35,987	35,976
Debt service	1,146	2,504
Capital additions	158,685	52,054
Other	15,725	4,134
Unrestricted	694,775	580,272
Total net assets	$2,536,159	$2,073,023

(in thousands of dollars)

For the Years Ended June 30

	2007	[For Comparison Only] 2006
OPERATING REVENUES AND EXPENSES		
Revenues		
Tuition and fees, Net (Note 1)	$ 152,820	$ 142,432
Patient services (Notes 1 & 13)	883,032	821,704
Federal grants and contracts	204,633	207,097
State and local grants and contracts	22,612	19,558
Nongovernmental grants and contracts	71,741	74,089
Sales and services, Net (Note 1)	420,813	382,902
Auxiliary enterprises (Note 1)	73,751	70,433
Other operating revenues	67,136	72,116
Total operating revenues	1,896,538	1,790,331
Expenses		
Compensation and benefits	1,133,059	1,043,826
Component units	250,279	227,340
Supplies	242,070	228,806
Purchased services	116,729	103,443
Depreciation and amortization	104,982	97,475
Utilities	51,131	52,238
Cost of goods sold	31,427	29,165
Repairs and maintenance	24,103	21,004
Scholarships and fellowships	23,766	21,624
Other operating expenses	114,840	107,746
Total operating expenses	2,092,386	1,932,667
Operating loss	(195,848)	(142,336)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	269,700	249,608
Gifts	82,094	26,248
Investment income	128,871	66,620
Interest	(18,229)	(14,801)
Other nonoperating expenses	(12,651)	(18,798)
Total nonoperating revenues	449,785	308,877
Gain before capital and permanent endowment additions	253,937	166,541
Capital appropriations	58,397	9,014
Capital grants and gifts	133,617	20,788
Additions to permanent endowments	17,185	13,975
Total capital and permanent endowment additions	209,199	43,777
Increase in net assets	463,136	210,318
NET ASSETS		
Net assets - beginning of year	2,073,023	1,862,705
Net assets - end of year	$2,536,159	$2,073,023

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

	2007	[For Comparison Only] 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees	$ 153,169	$ 142,705
Receipts from patient services	865,626	815,311
Receipts from contracts and grants	301,936	291,799
Receipts from auxiliary and educational services	493,479	452,831
Collection of loans to students	6,368	8,649
Payments to suppliers	(814,824)	(769,381)
Payments for personal services	(1,118,223)	(1,034,341)
Payments for scholarships and fellowships	(23,766)	(21,623)
Loans issued to students	(7,812)	(5,880)
Other	50,603	85,219
Net cash used by operating activities	(93,444)	(34,711)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	269,700	249,608
Gifts		
Endowment	16,278	14,407
Nonendowment	60,318	27,307
Other	(12,284)	(18,732)
Net cash provided by noncapital financing activities	334,012	272,590
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	159,260	171,048
Capital appropriations	9,546	9,014
Gifts	20,144	21,820
Purchase of capital assets	(142,393)	(125,315)
Principal paid on capital debt	(72,239)	(112,690)
Interest paid on capital debt	(18,084)	(14,640)
Net cash used by capital and related financing activities	(43,766)	(50,763)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	872,892	113,391
Receipt of interest and dividends on investments	60,272	40,551
Purchase of investments	(1,026,740)	(363,143)
Net cash used by investing activities	(93,576)	(209,201)
Net increase (decrease) in cash	103.226	(22,085)
Cash - beginning of year	583,953	606,038
Cash - ending of year	$ 687,179	$ 583,953

The accompanying notes are an integral part of these financial statements

(in thousands of dollars)

For the Years Ended June 30

	2007	[For Comparison Only] 2006
RECONCILIATION OF NET OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (195,848)	$ (142,336)
Adjustments to reconcile operating loss to cash used by operating activities		
Depreciation expense	104,982	97,475
Change in assets and liabilities		
Receivables, net	(28,363)	(15,290)
Inventory	(2,369)	(2,414)
Donated property held for sale		29
Other assets	(2,887)	1,102
Accounts payable	21,012	1,673
Accrued payroll	11,629	6,052
Compensated absences & early retirement benefits	3,207	3,434
Deferred revenue	2,868	(75)
Deposits & other liabilities	(7,675)	15,639
Net cash used by operating activities	$ (93,444)	$ (34,711)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital leases	$ 14,847	$ 15,172
Donated property and equipment	8,299	12,786
Completed construction projects transferred from State of Utah (DFCM)	48,851	
Annuity and life income	163	162
Increase in fair value of investments	65,146	27,250
Total noncash investing, capital, and financing activities	$ 137,306	$ 55,370

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

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

Component units are entities that are legally separate from the University, but are financially accountable to the University, or whose relationships with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete. The relationship of the University with its component units requires the financial activity of the component units to be blended with that of the University. 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, with the exception of one, who are affiliated with the University. The operations of UURF include the leasing and administration of Research Park (a research park located on land owned by the University), the leasing of certain buildings, and the commercial development of patents and products developed by University personnel. The fiscal year end for UURF is June 30. UURF is audited by other independent auditors and their report, dated September 14, 2007, 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 6, 2007, 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.

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

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

C. Investments

Investments are recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment 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.

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

D. Allowances

In accordance with GASB Statement No. 34, certain expenses are netted against revenues as allowances. The following schedule presents revenue allowances for the years ended June 30, 2007 and 2006:

Revenue	2007	2006
Tuition and fees	$18,101,747	$16,682,607
Patient services	40,797,926	41,800,569
Sales and services	3,530	32,597
Auxiliary enterprises	750,806	851,665

E. 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.

F. Research and Development Costs

Research and development costs of ARUP are expensed as incurred. These costs for the year ended June 30, 2007, were approximately $7,681,000.

G. Compensated Absences & Early Retirement Benefits

Employees' vacation leave is accrued at a rate of eight hours each month for the first five years and increases to a rate of 16.67 hours each month after fifteen years of service. There is no requirement to use vacation leave, but a maximum of thirty days plus one-year accrual may be carried forward at the beginning of each calendar year. Employees are reimbursed for unused vacation leave upon termination and vacation leave is expended when used or reimbursed. The liability for vacation leave at June 30, 2007, was approximately $37,255,000.

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, 103 employees participate in the early retirement program. The University pays each early retiree an annual amount equal to the lesser of 20% of the retiree's final salary or their estimated social security benefit, as well as health care and life insurance premiums, which is approximately 50% of their early retirement salary, until the employee reaches full social security retirement age. In accordance with GASB Statement No. 47, *Accounting for Termination Benefits*, the amount recognized on the financial statements was calculated at the discounted present value of the projected future costs. 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, 2007, these expenditures were approximately $1,725,000.

H. Construction

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

I. Disclosures

Certain financial information for fiscal year ended June 30, 2006 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 managed in accordance with the State Money Management Act. The State Money Management Council provides regulatory oversight for the PTIF. The PTIF is available for investment of funds administered by any Utah public treasurer.

At June 30, 2007, cash and cash equivalents and short-term investments consisted of:

Cash and Cash Equivalents	
Cash	$ (4,354,439)
Money market funds	1,056,865
Time certificates of deposit	31,424,370
Commercial Paper	21,159,496
Obligations of the U.S.	
Government and its agencies	269,251,887
Utah Public Treasurer's	
Investment Fund	368,640,701
Total (fair value)	$687,178,880

Short-term Investments	
Time certificates of deposit	$ 1,724,342
Obligations of the U.S.	
Government and its agencies	377,934,415
Corporate notes	7,539,316
Total (fair value)	$387,198,073

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 generally not ascertainable and any realization from the future sale of the stock is often uncertain. Therefore, such stock is recorded by UURF at a nominal value. Those stocks that are publicly traded are recorded at their fair value on June 30, 2007.

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 (UMIFA), Section 13-29 of the *Utah Code* (applicable through April 30, 2007), the institution 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. According to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Section 51-8 of the *Utah Code* (applicable after April 30, 2007), the institution may appropriate for expenditure or accumulate so much of an endowment fund as the University determines to be prudent for uses, benefits, purposes, and duration for which the endowment was established.

The endowment income spending policy at June 30, 2007, 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, 2007, was approximately $133,557,000. The net appreciation is a component of restricted expendable net assets.

At June 30, 2007, the investment portfolio composition was as follows:

Obligations of the U.S.	
Government and its agencies	$100,653,300
Corporate bonds	5,000
Mutual funds	431,345,842
Common and preferred stocks	16,146,707
Total (fair value)	$548,150,849

4. DEPOSITS AND INVESTMENTS

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

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

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

Deposits

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

At June 30, 2007, the carrying amounts of the University's deposits and bank balances were $48,260,679 and $37,832,378, 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 $37,632,378 exposed to custodial credit risk. The University's policy for reducing this risk of loss is to deposit all such balances in qualified depositories, as defined and required by the Act.

Investments

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

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

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

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

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

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

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act or the UMIFA/UPMIFA and Rule 541, as applicable. For non-endowment funds, Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the

Figure 1.

Investment Type	Fair Value	Investment Maturities (in years) Less than 1	1 - 5	6 - 10	More than 10
Money market mutual funds	$ 747,514	$ 747,514			
Time cerificates of deposit	1,724,342	1,724,342			
Commercial Paper	21,159,496	21,159,496			
Utah Public Treasurer's Investment Fund	368,640,701	368,640,701			
U.S. Treasuries	386,326,501	285,673,201	$100,653,300		
U.S. Agencies	361,513,101	361,513,101			
Corporate notes and bonds	7,544,316	7,539,316			$5,000
Mutual bond funds	124,124,370		4,703,751	$119,420,619	
Totals	$1,271,780,341	$1,046,997,671	$105,357,051	$119,420,619	$5,000

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

As of June 30, 2007, the University had investments with maturities as shown in *Figure 1.*

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

At June 30, 2007, the University had investments with quality ratings as shown in *Figure 2.*

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of its investments that are in the possession of an outside party. The University's policy for reducing its exposure to custodial credit risk is to comply with applicable provisions of the Act. As required by the Act, all applicable securities purchased were delivered versus payment and held in safekeeping by a bank. Also, as required, the ownership of book-

Figure 2.

Investment Type	Fair Value	Quality Rating AAA/A-1	A	Unrated	No Risk
Money market mutual funds	$747,514	$ 364,574		$ 382,940	
Time certificates of deposit	1,724,342	1,724,342			
Commercial paper	21,159,496	21,159,496			
Utah Public Treasurer's Investment Fund	368,640,701			368,640,701	
U.S. Treasuries	386,326,501				$386,326,501
U.S. Agencies	361,513,101	361,513,101			
Corporate notes and bonds	7,544,316		$7,539,316	5,000	
Mutal bond funds	124,124,370			124,124,370	
Totals	$1,271,780,341	$384,761,513	$7,539,316	$493,153,011	$386,326,501

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, 2007, the University's custodial bank was both the custodian and the investment counterparty for $707,977,202 of U.S. Treasury and Agency securities purchased by the University and $29,873,400 of U.S. Treasury securities were held by the custodial bank's trust department but not in the University's name.

Concentration of Credit Risk:Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with the Rules of the Council or the UMIFA/UPMIFA and Rule 541, as applicable. Rule 17 of the Council limits non-endowment fund investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio. For 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 and the University's endowment policy, 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, 2007, including approximately $26,455,000 and $43,068,000 of noncurrent loans and pledges receivable, respectively:

Accounts	$273,042,994
Contracts and grants	33,851,669
Notes	99,962
Loans	32,355,184
Pledges	46,949,939
Interest	9,409,831
	395,709,579
Less allowances for doubtful accounts	(52,802,266)
Receivables, net	$342,907,313

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. 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, 2007, the University had outstanding commitments for the construction and remodeling of University buildings of approximately $29,448,000.

Capital assets at June 30, 2007, 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

Figure 3.	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	$1,136,454,473	$175,276,953	$ 816,150	$1,310,915,276
Infrastructure & improvements	138,235,956	17,796,048		156,032,004
Land	17,267,135			17,267,135
Equipment	506,254,693	67,791,827	24,949,378	549,097,142
Library materials	146,637,831	3,174,745	1,089,148	148,723,428
Art and special collections	39,428,566	4,123,122	33,653	43,518,035
Construction in progress	138,977,107	157,796,897	204,746,030	92,027,974
Total cost	2,123,255,761	425,959,592	231,634,359	2,317,580,994
Less accumulated depreciation				
Buildings	478,923,560	47,207,240	921,774	525,209,026
Infrastructure & improvements	77,349,550	8,021,945		85,371,495
Equipment	345,294,335	45,582,675	21,148,963	369,728,047
Library materials	83,897,590	4,942,329		88,839,919
Total accumulated depreciation	985,465,035	105,754,189	22,070,737	1,069,148,487
Capital assets, net	$1,137,790,726	$320,205,403	$209,563,622	$1,248,432,507

System (Systems) that are multi-employer, cost sharing, defined benefit pension plans. The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

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

Plan members in the State and School Contributory Retirement System are required to contribute 6.00% of their annual covered salaries, all of which is paid by the University, and the University is required to contribute 9.73% of their annual salaries. In the State and School Noncontributory Retirement System and the Public Safety Noncontributory Retirement System, the University is required to contribute 14.22% (with an additional 1.50% to a 401(k) salary deferral program) and 26.75%, 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, 2007, 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, 2007, 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, 2007, 2006, and 2005, the University's contributions to the Systems were equal to the required amounts, as shown in *Figure 4*.

Figure 4.

	2007	2006	2005
State and School Contributory Retirement System	$ 1,581,565	$ 1,489,378	$ 1,563,900
State and School Noncontributory Retirement System	24,259,347	22,257,303	22,375,155
Public Safety Noncontributory Retirement System	328,163	289,291	295,083
TIAA-CREF	70,903,307	65,126,133	60,472,570
Pension plan	3,498,662	3,140,908	2,743,021
Profit sharing plan	6,050,982	4,723,787	3,353,435
Total contributions	$106,622,026	$97,026,800	$90,803,164

9. DEFERRED REVENUE

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

10. FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others are neither in the possession of nor under the management of the University. These funds, which are not recorded on the University's financial records and which arose from contributions, are held and administered by external fiscal agents, selected by the donors, who distribute net income earned by such funds to the University, where it is recorded when received. The fair value of funds held in trust at June 30, 2007, was $98,596,688.

In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of $7,750,673 as of June 30, 2007, based on a predetermined formula. The fair value of this stock as of June 30, 2007 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, 2007, is adequate to cover any claims incurred through that date. The University and UUHC have a "claims made" umbrella malpractice insurance policy in an amount considered adequate by its respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances.

The estimated self-insurance claims liability is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by GASB Statement No. 30, *Risk Financing Omnibus*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

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

The University has recorded the investments of the malpractice liability trust funds at June 30, 2007, 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

Figure 5.

	2007	2006
Estimated claims liability - beginning of year	$ 54,505,514	$ 52,869,024
Current year claims and changes in estimates	153,046,890	129,783,800
Claim payments, including related legal and administrative expenses	(141,395,068)	(128,147,310)
Estimated claims liability - end of year	$ 66,157,336	$ 54,505,514

the Statement of Revenues, Expenses, and Changes in Net Assets.

12. INCOME TAXES

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

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

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

13. HOSPITAL REVENUE

A. Net Patient Service Revenue

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

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

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

B. Charity Care

UUHC maintains records to identify and monitor the level of charity care it provides. Based on established rates, the charges foregone as a result of charity care during the year ended June 30, 2007, were approximately $21,471,000.

14. LEASES

A. Revenue

UURF receives lease revenues from noncancellable sublease agreements with tenants of the Research Park and from tenants occupying six buildings owned by UURF. The lease revenue to be received from these noncancellable leases for each of the subsequent five years is $6,500,000, and for eighteen years thereafter, comparable annual amounts. Most lease revenue is subject to escalation based on changes in the Consumer Price Index (CPI). Since such escalations are dependent upon future changes in the CPI, these escalations, if any, are not reflected in the minimum noncancellable lease revenues listed above.

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 $25,795,000 and $75,378,215 for buildings and equipment, respectively. Accumulated depreciation for these buildings and equipment amounts to $2,404,688 and $37,601,181, respectively. Operating leases and related assets are not recorded in the Statement of Net Assets. Payments are recorded as expenses when incurred and amount to approximately $25,343,000 for the University and $4,873,000 for component units for the year ended June 30, 2007. Total operating lease commitments for the University include approximately $7,275,000 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, 2007 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, 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 commitements for operating and capital leases as of June 30, 2007 are shown in *Figure 6*.

15. BONDS PAYABLE AND OTHER LONG-TERM LIABILITIES

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

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

The revenue bonds are special limited obligations of the University. The obligation for repayment is solely that of the University and payable from the net revenues of auxiliary enterprises and UUHC,

Figure 6.

Fiscal Year	Operating	Capital
2008	$ 31,406,132	$14,007,068
2009	29,972,526	17,182,169
2010	25,192,446	9,235,835
2011	22,715,115	6,964,962
2012	20,334,125	4,884,691
2013 – 2017	82,361,442	7,650,830
2018 – 2022	76,886,100	2,883,041
2023 – 2027	7,585,740	720,985
2028 – 2030	415,519	
Total future minimum lease payments	$ 296,869,145	63,529,581
Amount representing interest		(8,251,986)
Present value of future minimum lease payments		$55,277,595

student building fees, land grant income, and recovered indirect costs. Neither the full faith and credit nor the taxing power of the State or any other political subdivision of the State is pledged to the payment of the bonds, the distributions or other costs associated with the bonds.

In 1985, the State Board of Regents authorized the University to issue Variable Rate Demand Industrial Development Bonds (University Inn Project - 1985 Series) for the Salt Lake City Marriott - University Park Hotel, separate from the University. The bonds are payable from the revenues of the hotel and the University has no responsibility or commitment for repayment of the bonds. The outstanding balance of the bonds at June 30, 2007, is $6,035,000.

The Series 1997A Auxiliary and Campus Facilities Revenue Bonds currently bear interest at a weekly rate in accordance with the bond provisions. When a weekly rate is in effect, the Series 1997A Bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's tender agent. The University's remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. If any Series 1997A Bonds cannot be remarketed to new holders, the tender agent is required to draw on an irrevocable standby bond purchase agreement to pay the purchase price of the bonds delivered to it. The standby bond purchase agreement is with JPMorgan Chase Bank and is valid through July 30, 2010. No funds have been drawn against the standby bond purchase agreement. The interest requirement for the Series 1997A Bonds is calculated using an annualized interest rate of 3.73%, which is the rate in effect at June 30, 2007.

The Hospital Revenue Bonds Series 2006B currently bear interest at a daily rate in accordance with the bond provisions. When a daily rate is in effect, the Series 2006B Bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. The University's remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount plus accrued interest. If any

Series 2006B 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 DEPFA Bank and is valid through October 25, 2013. No funds have been drawn against the standby bond purchase agreement. The interest requirement for the Series 2006B Bonds is calculated using an annualized interest rate of 3.90%, which is the rate in effect at June 30, 2007.

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 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 United States Department of Health and Human Services) pursuant to Section 1897, Title XVIII of the Social Security Act. The proposed rules include a Loan Forgiveness Program whereby the full amount of the loan may be forgiven based upon certain criteria. The University has received notice from the Federal Government that the criteria were met. Consequently, during fiscal year 2007, the loan was forgiven and the proceeds recorded as federal capital grant revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

The following schedule lists the outstanding bonds payable and certificates of participation of the University at June 30, 2007:

Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2007
Auxiliary and Campus Facilities						
Series 1987A - Refunding	3/1/87	2014	3.750% - 6.750%	$ 11,140,000	$ 440,000	$ 1,490,000
Series 1997A - Revenue	7/30/97	2027	Variable	52,590,000	1,125,000	12,000,000
Series 1998A - Revenue & Refunding	7/1/98	2016	4.100% - 5.250%	120,240,000	2,546,828	56,234,102
Series 1999A - Revenue	5/1/99	2014	4.000% - 4.800%	5,975,000	422,383	3,404,618
Series 2001 - Revenue	7/18/01	2021	3.500%- 5.125%	2,755,000	113,762	2,205,935
Series 2005A - Refunding	8/2/05	2021	3.000%- 5.000%	42,955,000	(18,280)	42,942,820
Hospital						
Series 1998A - Revenue	6/1/98	2013	5.250% - 5.375%	25,020,000	3,224,755	6,457,349
Series 2005A - Revenue & Refunding	7/14/05	2018	4.500%- 5.000%	30,480,000	(889,581)	31,436,853
Series 2006A - Revenue & Refunding	10/26/06	2032	4.000%- 5.250%	77,145,000	102,594	82,227,692
Series 2006B - Revenue	10/26/06	2032	Variable	20,240,000		20,240,000
Research Facilities						
Series 2000A - Revenue & Refunding	7/13/00	2020	5.000% - 5.750%	17,585,000	706,701	2,245,519
Series 2004A - Revenue	6/30/04	2019	3.000%- 4.700%	9,685,000	542,181	8,108,083
Series 2005A - Revenue	2/15/05	2025	3.000%- 5.000%	5,515,000	209,689	5,270,586
Series 2005B - Refunding	6/07/05	2020	3.000%- 5.000%	20,130,000	1,417,972	18,159,991
Series 2007A - Revenue	6/28/07	2022	4.600%- 4.740%	10,000,000	580,000	10,000,000
Certificates of Participation						
Series 2007	4/3/07	2027	4.000%- 5.500%	42,450,000	1,088,084	42,677,861
Total					$11,612,088	$345,101,409

UURF has purchased three buildings with two mortgages that are guaranteed by the University. The remaining amounts of the mortgages are $6,019,311 at 8.87% interest and $2,952,801 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 $3,394,730 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, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$210,866,759	$116,569,818	$ 25,013,029	$302,423,548	$ 10,524,004
Certificates of participation		42,690,156	12,295	42,677,861	1,088,084
Capital leases payable	86,683,835	14,846,799	46,253,039	55,277,595	11,894,279
Notes & contracts payable	114,765,359	1,824,227	101,039,811	15,549,775	1,340,706
Total long-term debt	412,315,953	175,931,000	172,318,174	415,928,779	24,847,073
Compensated absences	38,425,406	29,125,955	25,919,170	41,632,191	4,509,589
Deposits & other liabilities	104,374,027	87,710,325	95,385,066	96,699,286	87,299,073
Total long-term liabilities	$555,115,386	$292,767,280	$293,622,410	$554,260,256	$116,655,735

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

Fiscal Year	Payments Principal	Payments Interest
2008	$ 24,847,073	$ 19,608,618
2009	29,141,118	18,591,458
2010	22,362,518	17,361,028
2011	22,150,579	16,373,484
2012	18,838,617	15,404,676
2013 – 2017	81,418,197	65,087,428
2018 – 2022	74,529,819	45,519,347
2023 – 2027	70,882,695	26,537,831
2028 – 2032	71,757,427	9,696,025
Total	$ 415,928,043	$234,179,895

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 October 26, 2006, Hospital Revenue and Refunding Bonds Series 2006A in the amount of $77,145,000 of which $11,350,000 was used to advance refund the remaining Hospital Revenue Bonds Series 2001. This refunding resulted in a reduction of the University's aggregate debt service payments of approximately $918,000 over the next sixteen years and a present value economic gain of approximately $595,000. 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, 2007, is $115,805,000.

17. FUNCTIONAL CLASSIFICATION OF EXPENSES

The following schedule presents operating expenses by functional classification for the year ended June 30, 2007:

Function	Amount (in thousands)
Instruction	$ 264,901
Research	217,805
Public service	381,863
Academic support	71,286
Student services	18,743
Institutional support	43,983
Operation & maintenance of plant	49,934
Student aid	33,945
Other	391,705
Hospital	618,221
Total	$2,092,386

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 *Figure 7* presents the net revenue pledged to the applicable bond system and the principal and interest paid for the year ended June 30, 2007.

19. COMMITMENTS AND CONTINGENCIES

Under the terms of various limited partnership agreements approved by the Board of Trustees or by University officers, the University is obligated to make periodic payments for advance commitments to venture capital and private equity investments. As of June 30, 2007, the University had committed, but not paid, a total of $15,497,554 in funding for these alternative investments.

During fiscal year 2007, the Utah State Auditor issued an audit finding to the Centers for Medicare and Medicaid Services (CMS) indicating that the Utah State Department of Health (the Department) had made payments for graduate medical education to teaching hospitals in excess of the maximum allowable amounts as described in the State Plan. This finding has been rebutted by the Department and an appeal has been filed with the Appeals Board of the United States Department of Health and Human Services. As UUHC has been the largest recipient of the graduate medical education funds, there is a potential that should CMS prevail in the dispute, the Department may look to UUHC to assist in funding any financial remedies imposed by the Appeals Board. As of June 30, 2007, the Department has indicated they will not look to UUHC to cover this liability and has reserved an amount adequate to cover any potential liability.

Figure 7.

	Bond Systems		
	Auxiliary & Campus Facilities	Hospital	Research Facilities
Revenue			
Operating revenue	$64,150,996	$707,728,912	$ 60,120,135
Nonoperating revenue	5,290,638	7,012,340	
Total revenue	69,441,634	714,741,252	60,120,135
Expenses			
Operating expenses	51,751,062	654,366,342	45,902,397
Nonoperating expenses		97,381	
Total expenses	51,751,062	654,463,723	45,902,397
Net pledged revenue	$17,690,572	$ 60,277,529	$ 14,217,738
Principal paid and interest expense	$9,533,550	$8,452,352	$4,553,627

THE UNIVERSITY OF UTAH | *Governing Boards and Officers*

THE UNIVERSITY OF UTAH

ANNUAL FINANCIAL REPORT PREPARED BY:

The University of Utah | Controller's Office

201 South Presidents Circle, Room 408 | Salt Lake City, Utah 84112-9023

(801) 581-5077 | Fax (801) 585-5257