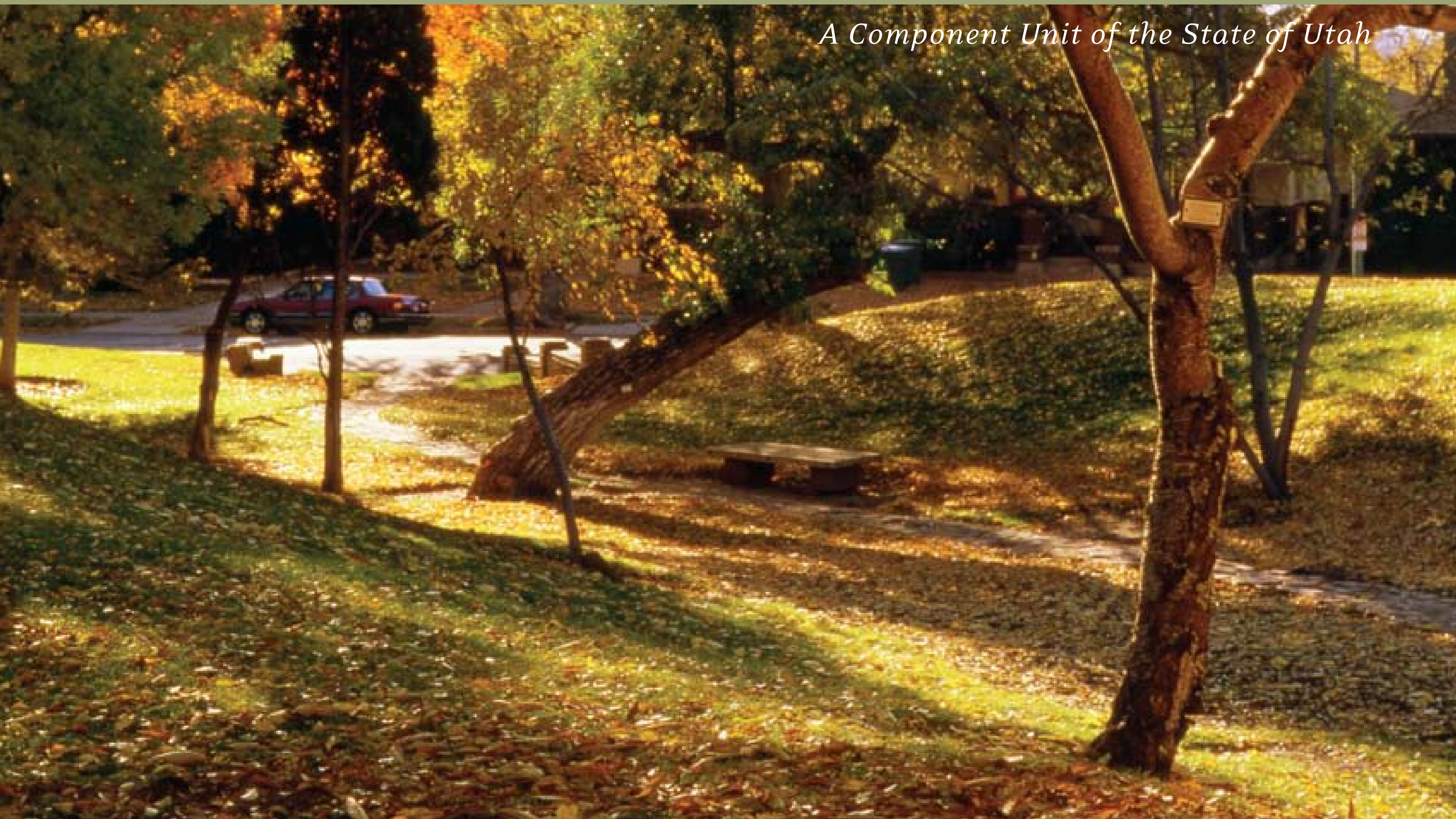
2008 Annual Financial Report

The University of Utah

A Component Unit of the State of Utah



THE UNIVERSITY OF UTAH™

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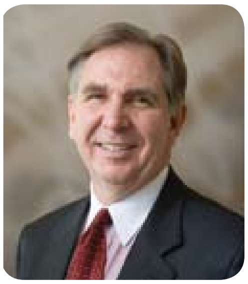
Message from the President

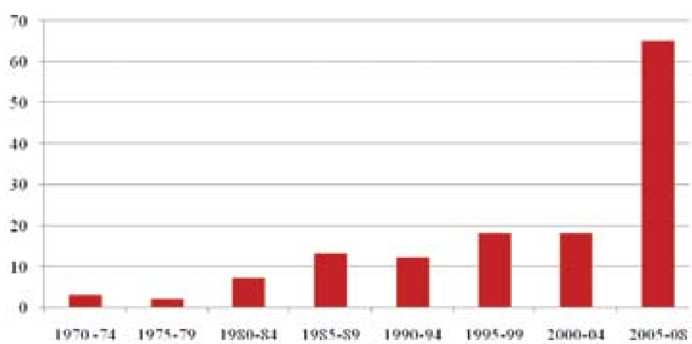


I am pleased to present this financial report for the University's 2008 fiscal year. Publication of this report has always presented an opportunity to celebrate the efforts and generosity of a broad community of students, faculty, administrators, staff, alumni, and friends. While this year is no different, recent events threaten to overshadow such thoughts. A financial crisis has taken center stage across the United States and the world. Its full dimensions are currently unclear, but its immediate impact is quite clear. It has brought new uncertainties into our lives, with volatile financial markets reflecting and perhaps magnifying widespread feelings of instability.

Times such as this bring into focus the immense value of a top-notch University such as ours. The University is a remarkable stabilizing force in our state; a counterbalance to uncertainty and trouble. Its true value flows from its basic missions:

- **Teaching** – Education is an effective antidote to economic turmoil and the fear it produces. At the University, our students gain the tools they need to embrace their futures. They also develop precious perspective—not only from a knowledge of past generations and the difficulties they faced, but also from an expanded view of our place in today's global society. Within the past year, we've instituted important academic requirements to help broaden our students' base of knowledge about global issues and global perspectives.

- **Research** – The U's research enterprise has proven to be a powerful economic force, in Utah and across the nation. Within the past year, the U was ranked second best in the nation at starting technology companies based on its research. Accomplishments in this area have increased dramatically in recent years.



During the past year Dr. Mario Capecchi, distinguished professor of human genetics and biology at the University of Utah's Eccles Institute of Human Genetics, won the Nobel Prize in Physiology or Medicine. Shortly thereafter he recalled how he felt coming to the United States as a child who had experienced some of the horrors of World War II. "I expected the streets to be paved with gold. But what I found instead was opportunity."

Our researchers have a tremendous record of finding golden opportunities, as illustrated by some recent announcements:

- Dr. Marc Porter, a Utah Science, Technology and Research (USTAR) professor of chemistry, chemical engineering and bioengineering and Michael Granger, USTAR research scientist, recently published the results of research demonstrating a new method for rapid disease testing. In collaboration with others, they successfully created a sensitive prototype device that could test for dozens or even hundreds of diseases simultaneously by acting like a credit card-swipe machine to scan a card loaded with microscopic blood, saliva or urine samples.

- The University has established the Nano Institute of Utah, representing a significant and decisive step in the quest to bring together nano science experts in diverse areas of chemistry, physics, biology, engineering, medicine and pharmacy. As USTAR nanotechnology consultant Darwin Cheney, PhD. has stated, "the institute should prove to be a magnet for industry-sponsored research and other collaborative efforts with leading life science business. It will be in a unique position to capitalize on state-of-the-art nanofabrication facilities the University is adding as part of the USTAR building project."

- University biologists Simon Titen and Kent Golic have conducted a study showing that the loss of a single telomere—the end of a chromosome—within a cell may be the main event that starts a cell on the road to becoming cancerous.

We have every expectation exciting opportunities will continue to sprout from the U's research enterprise, even in today's troubled economy.

- **Public Service** – To society's most vulnerable, the U provides direct help. On the most personal level, our doctors, nurses, and other healthcare workers relieve suffering and offer hope for the future. We devote substantial resources to caring for those who cannot pay.

  We provide numerous service-learning opportunities for students. One example is our Service-Learning Scholars Program—an academically challenging program that supports and recognizes University students in addressing community needs. Students apply their academic knowledge to community issues and develop leadership and organizational skills while devoting over 400 hours to community service.

  Our public service efforts are also international. For more than a decade, faculty and students have traveled each year to Ghana during summer break to work in community health centers, provide volunteer neurological care, work in operating rooms, teach anesthesia to nurse anesthetists and students, and help villages develop agricultural resources.

I could cite hundreds of other examples. The University does all this with modest resources. We are responsible and frugal, and are belt-tightening in strategic ways that will allow our core mission to continue growing.

The University of Utah is fully dedicated to the greater good through teaching, research, and public service. As we encounter current economic uncertainties one thing is certain—this is an extraordinary community of faculty scholars, students, and friends who can be relied on. The U is important, now more than ever. I look to the future with optimism and express appreciation for my association with this community of talented and dedicated people.

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") as of and for the year ended June 30, 2008, as listed in the table of contents. The University is a component unit of the State of Utah. 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 23% ($797,297,000) of total assets and 45% ($113,567,000) of total revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Utah Hospitals and Clinics and the blended component units, is based on the reports of the other auditors. The prior year partial comparative information has been derived from the University's 2007 financial statements and, in our report dated October 26, 2007, 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, 2008, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Auston G. Johnson

Auston G. Johnson, CPA
Utah State Auditor
November 14, 2008

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, 2008, with selected comparative information for the year ended June 30, 2007. 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 28,000 students, 2,300 full-time 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 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.

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) is a national clinical and anatomic pathology reference laboratory.

FINANCIAL HIGHLIGHTS

The University's financial position remained strong at June 30, 2008, with assets of $3.5 billion and total liabilities of $0.8 billion. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased by $169.6 million to $2.7 billion at June 30, 2008.

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, 2008 and 2007 in *Figure 1.*

Fiscal year 2008 revenues before change in fair value of investments remained essentially the same, while expenses increased 8.8%, or $186.4 million. This resulted in a net gain before changes in fair value of investments of $211.7 million for fiscal year 2008, as compared to $397.5 million for fiscal year 2007.

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 9.7% during the past five 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 $410.2 million and $494.2 million for the years ended June 30, 2008 and 2007, respectively. Nonoperating expenses, which include interest expense, totaled $33.8 million and $31.5 million for the years ended June 30, 2008 and 2007, respectively.

Also, as required by GASB Statement No. 34, scholarships and fellowships applied to student accounts are shown as a reduction of auxiliary and 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, 2008 and 2007, scholarship and fellowship expenses totaled $24.6 million and $23.8 million, respectively. In addition, scholarships and fellowships in the amount of $22.6 million and $18.8 million for the years ended June 30, 2008 and 2007, 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.	*2008*	*2007*
	(in thousands)	
Total revenues before change in fair value of investments	$ 2,522,491	$ 2,521,918
Total expenses	2,310,805	2,124,446
Increase in net assets before change in fair value of investments	211,686	397,472
Increase (decrease) in fair value of investments	(42,130)	65,146
Increase in net assets	$ 169,556	$ 462,618

STATEMENT OF NET ASSETS

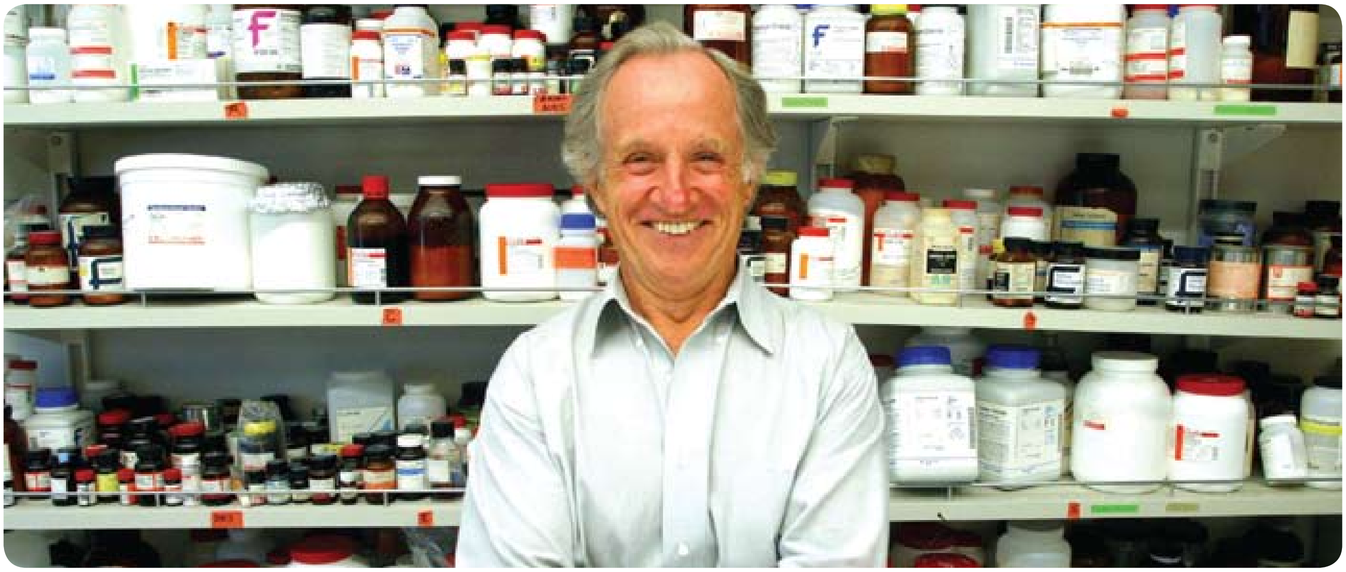
The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities is net assets and is one indicator of the current financial condition of the 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, 2008 and 2007 is shown in *Figure 2.*

A review of the University's Statement of Net Assets at June 30, 2008 and 2007, 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 7.1 months of total operating expenses (excluding depreciation). Current cash and investments totaled $936.2 million at June 30, 2008 and $937.5 million at June 30, 2007. Net receivables increased from $273.4 million at June 30, 2007 to $288.8 million at June 30, 2008.

Current liabilities consist primarily of trade accounts, accrued payroll, deposits, and other liabilities, which totaled $347.3 million at June 30, 2008, as compared to $301.5 million at June 30, 2007. Current liabilities also include deferred revenue and the current portion of bonds payable. Total current liabilities increased $45.7 million during fiscal year 2008.

Figure 2.	*2008*	*2007*
	(in thousands)	
Current assets	$ 1,279,049	$ 1,254,949
Noncurrent assets		
Endowment and other investments	672,264	684,983
Receivables, net	82,689	69,522
Capital assets, net	1,348,040	1,248,432
Other	75,235	17,406
Total assets	3,457,277	3,275,292
Current liabilities	347,254	301,528
Noncurrent liabilities	422,982	456,279
Total liabilities	770,236	757,807
Net assets	$ 2,687,041	$ 2,517,485



Dr. Mario Capecchi, Nobel Prize in Physiology or Medicine.

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 held 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. Substantially all the University's endowments are restricted by the donor for a particular purpose. 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, most carry restrictions as to how the funds may be spent. 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 2008 represented the end of a very good five year period with respect to investment performance for the University's endowment funds. However, at the end of the fiscal year significant upheavals in the financial markets were beginning to take their toll on performance for all investors. The five year average annualized return was 9.7% through the end of the fiscal year. For the year ended June 30, 2008, the University of Utah endowment pool returned -4.3% compared to 17.0% for the year ended June 30, 2007. These results reflect the investment in equities and bonds in the asset allocation of the pool and compare favorably to broad indexes such as the S&P 500 and Lehman Brothers Aggregate Bond (-13.1% decline and 7.1% gain, respectively, for fiscal year 2008). The unrealized net loss on the endowment pool for the year ended June 30, 2008 totaled $15.4 million compared to an unrealized gain of $72.8 million for the year ended June 30, 2007.

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, 2008, the spending policy was 4.0% of the twelve quarter moving average of unit market values. Given the unprecedented challenges in the current financial environment, the endowment spending policy may be adjusted as necessary to maintain the University's historically prudent approach to endowment spending.

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 earnings were $14.7 million in fiscal year 2008, the University distributed $18.3 million to operations. The difference of $3.6 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. The University's endowment pool has paid out an average of 4.0% and reinvested the balance representing an average of 1.5%. 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 students at both the graduate and undergraduate level.

Gifts to permanent endowments totaled $17.5 million and $17.2 million for the fiscal years 2008 and 2007, 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 $244.4 million in fiscal year 2008, as compared to $426.0 million in fiscal year 2007. Capital additions include 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, 2008, totaled $190.7 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; equipment for a new cogeneration power plant; and new office and classroom facilities for the College of Humanities.

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 lower interest rates.

Bonds payable totaled $289.5 million and $302.4 million at June 30, 2008 and 2007, respectively. 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, 2008, the University has 4.3 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 $110.6 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, 2008 and 2007 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, 2008 (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 53.1% of total expenses, as well as in the areas of technology and utility costs. To manage this financial pressure, the University continues to seek diversified sources of revenue and to implement cost containment measures.

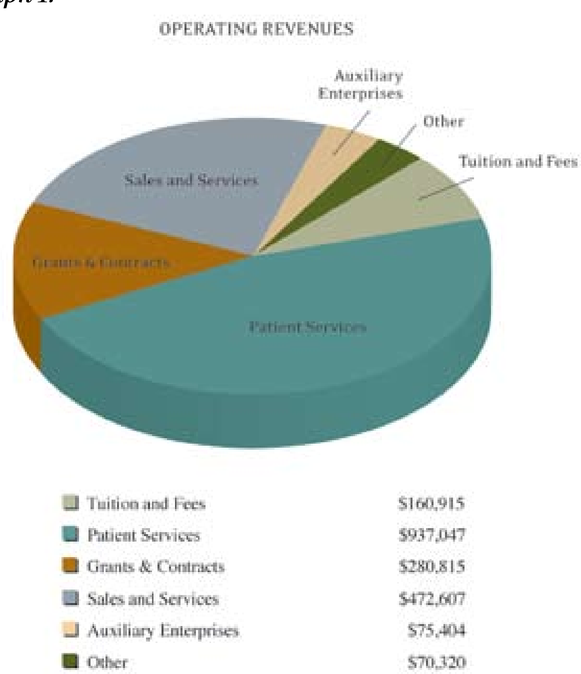
Tuition and state appropriations are the primary sources of funding for the University's academic programs. Student tuition and fees, net of allowances for scholarships and fellowships, increased $8.1 million, or 5.3% to $160.9 million in fiscal year 2008. State appropriations increased 10.9% or $29.0 million to $294.9 million in fiscal year 2008.

While tuition and state appropriations fund a significant percentage of the University's academic and administrative costs, private support has been, and will continue to be, essential to the University's academic success. Private support in the form of gift revenues for operations decreased 9.3%, or $7.6 million, to $74.4 million in fiscal year 2008. The University's continued emphasis on fund raising to support critical projects and initiatives is demonstrated by an aggressive capital campaign that is just getting underway.

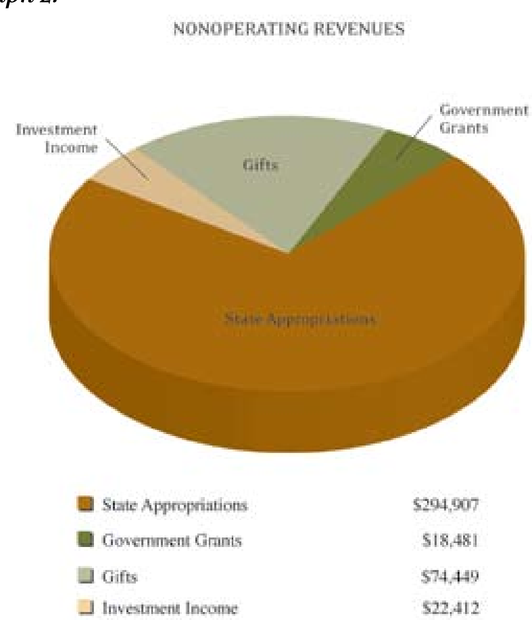
Figure 3.

	2008	2007
	(in thousands)	
Operating revenues		
Tuition and fees	$ 160,915	$ 152,820
Patient services	937,047	883,032
Grants and contracts	280,815	286,117
Sales and services	472,607	420,813
Auxiliary enterprises	75,404	73,751
Other	70,320	67,136
Total operating revenues	1,997,108	1,883,669
Operating expenses	2,277,040	2,092,904
Operating loss	(279,932)	(209,235)
Nonoperating revenues (expenses)		
State appropriations	294,907	265,924
Government grants	18,481	17,307
Gifts	74,449	82,094
Investment income	22,412	128,871
Interest expense	(20,240)	(18,229)
Other	(13,525)	(13,313)
Net nonoperating revenues	376,484	462,654
Capital appropriations	12,238	58,397
Capital and endowment grants and gifts	60,766	150,802
Total capital and endowment revenues	73,004	209,199
Increase in net assets	169,556	462,618
Net assets - beginning of year, as adjusted (Note 21)	2,517,485	2,054,867
Net assets - end of year	$ 2,687,041	$ 2,517,485

Graph 1.



Graph 2.



Revenues for grants and contracts remained stable with a slight decrease of 1.9%, or $5.3 million, to $280.8 million in fiscal year 2008, 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 6.1% or $54.0 million to $937.0 million in fiscal year 2008. 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 have 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, 2008 and 2007, consisted of the following components:

	2008	*2007*
	(in thousands)	
Interest and dividends, net	$ 55,807	$ 63,725
Net increase (decrease) in fair value of investments	(33,395)	65,146
Net investment income	$ 22,412	$ 128,871

Net investment income totaled $22.4 million in fiscal year 2008, as compared to $128.9 million in fiscal year 2007, which is a decrease of $106.5 million. This decrease is a direct result of the dramatic downturn in the financial markets at the end of the fiscal year. The University is not immune to the volatility in the financial markets.

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 $16.6 million in fiscal year 2008, as compared to $13.6 million in fiscal year 2007. In addition, in fiscal year 2008, $1.7 million was returned to endowment principal.

Capital appropriations received from the State in fiscal year 2008, which totaled $12.2 million, funded a portion of building renovation projects. Other revenues include capital grants and gifts and additions to permanent endowments totaling $60.8 million for the fiscal year ending June 30, 2008.

A comparative summary of the University's expenses for the years ended June 30, 2008 and 2007 follows:

	2008	2007
	(in thousands)	
Operating		
Compensation and benefits	$ 1,226,252	$ 1,133,059
Component units	287,603	250,279
Supplies	252,785	242,070
Purchased services	104,529	116,729
Depreciation and amortization	110,618	104,982
Utilities	56,958	51,131
Cost of goods sold	32,857	31,427
Repairs and maintenance	32,817	24,103
Scholarships and fellowships	24,556	23,766
Other	148,065	115,358
Total operating	2,277,040	2,092,904
Nonoperating		
Interest and other	33,765	31,542
Total expenses	$ 2,310,805	$ 2,124,446

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

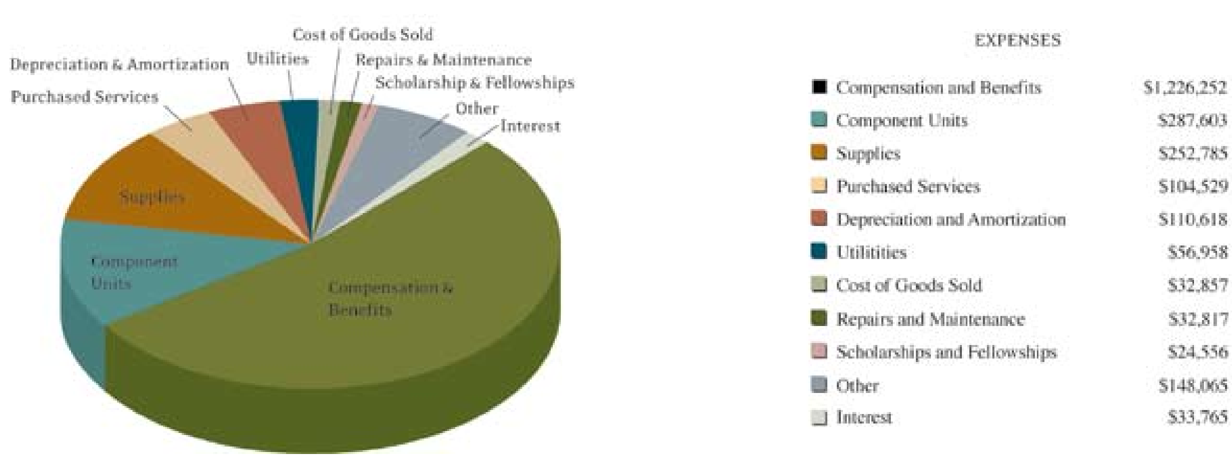
The University is committed to recruiting and retaining an outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. The resources expended for compensation and benefits increased 8.2%, or $93.2 million, to $1.2 billion in fiscal year 2008. Of this increase, compensation increased 8.8%, or $77.5 million, as a result of annual increases and the hiring of additional employees. The related employee benefits increased 6.2% or $15.7 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, 2008 and 2007 follows:

	2008	2007
	(in thousands)	
Instruction	$ 282,156	$ 264,901
Research	212,235	217,805
Public service	416,931	381,863
Academic support	78,307	71,286
Student services	20,252	18,743
Institutional support	63,929	43,983
Operations and maintenance of plant	56,004	49,934
Student aid	38,588	33,945
Other	442,392	392,223
Hospital	666,246	618,221
Total operating expenses	$ 2,277,040	$ 2,092,904

Instruction, research, and public service expenses increased 8.0%, or $69.4 million, to $933.9 million in fiscal year 2008. Academic and institutional support expenses increased 23.4%, or $27.0 million, to $142.2 million in fiscal year 2008.

Graph 3.



STATEMENT OF CASH FLOWS

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

The University's cash and cash equivalents decreased $106.4 million due primarily to increased use of funds for personal services and payments to suppliers. This negative flow of funds was partially offset by funds received for patient services, auxiliary and educational services, and a reduction of principal payments on capital debt. 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 for fiscal year 2008 declined for the third year in a row. Graduate enrollment continued to 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 likewise has been under pressure in large part due to the State's robust economy and remarkably low unemployment rates. While both factors continue to have an impact on enrollment numbers, both are likely to ease within the next five years. Indeed, enrollment for Fall 2008 is up slightly over the prior year perhaps in response to the slowing economy. 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 the prior fiscal year, the State passed legislation that makes it easier for nonresident 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.

While the State's economy is among the healthiest in the nation, it is not immune to the recent turmoil in the financial markets and the economy. With revenue projections falling below original estimates, the Governor convened a special session of the Legislature to address the project shortfall. All state agencies received varying degrees of budget cuts for the 2009 fiscal year and higher education was no exception. The University of Utah's budget was cut 4% permanently and additional long term cuts may result when the Legislature convenes in January to craft the budget for the 2010 fiscal year. The University of Utah is using this opportunity to make strategic decisions about various program offerings with every effort being made to preserve and enhance core strengths. Expenditure containment, however, will not fully address the problem and other measures will be required to address this on a long term basis.

Despite a more cautious economic outlook, the University continues to receive worldwide recognition for the accomplishments of its researchers, physicians, and students. The University will continue to benefit from the Utah Science Technology and Research (USTAR) initiative which 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] As part of this initiative, the University was successful in fiscal year 2008 in attracting a number of world-class researchers with a proven track record of developing intellectual property, and there is good reason to believe that this success will continue in the coming year and beyond.

UUHC and 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 was scheduled to expire May 2008, but new legislation was passed extending the moratorium until April 1, 2009. Unless new legislation is enacted, the CMS rule will become effective at that time. If the new rule becomes effective next April, it is estimated that UUHC will experience a significant reduction in Medicaid revenues. The UUHC budget for the current fiscal year, however, was conservatively developed assuming the rule would take effect on April 1, 2009. 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. Related to this, the University received notice of a $32.8 million disallowance from CMS that resulted in a liability being recorded in the 2008 financial statements.

Awards for sponsored programs, which include basic research, continue to be strong – however, uncertainties within the federal budget for research coupled with the uncertainty of the Presidential election could have a dramatic impact – either positively or negatively – on research in the coming years. The initiatives resulting from the USTAR project, though, will certainly have a positive impact on funding as the number of research faculty increases. In addition, a new rate for reimbursed overhead on federally sponsored research projects took effect July 2008, increasing to 50.5% from 49.5%.

A major capital campaign, targeted at $1.2 billion, was announced in Fall 2008 and is expected to add significantly to our endowment base as well as providing critical support to University students, researchers, and facilities.

The University continues to exercise a conservative approach to the issuance of debt. 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 most cases partially gift-funded, to support these critical areas. In addition, the University evaluates existing debt versus current interest rates to identify opportunities to refinance at better rates.

Fiscal year 2008 was a difficult year in the financial markets. The U.S. equity market as measured by the S&P 500 index declined 13.1%. Domestic fixed income markets, particularly U.S. Treasuries, performed better as the Lehman Brothers Government/Credit index returned 7.1%. Within this challenging environment, the University's endowment declined 4.3% for the 2008 fiscal year. The five-year average annualized return was 9.7% through the end of the fiscal year. Subsequent to the end of the 2008 fiscal year, the financial markets have been rocked by a number of institutional failures, acquisitions, and federal takeovers. It is still uncertain what impact the $700 billion plus buyout will have in restoring stability to these markets. The University's investments are not immune to these unprecedented market swings. Endowment spending policy will be carefully monitored and adjusted as necessary to maintain the University's historically prudent approach to endowment spending.

Despite significant events both nationally and at the State level, 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 generally strong state economy.

[1] *http://ustar.utah.gov/about/index.html*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UNIVERSITY OF UTAH
FEB. 28TH
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Financial Statements

THE UNIVERSITY OF UTAH | Statement of Net Assets

(in thousands of dollars)

As of June 30

	2008	[For Comparison Only] 2007
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2 & 4)	$ 516,750	$ 551,160
Short-term investments (Notes 2 & 4)	419,479	386,385
Receivables, net (Note 5)	288,776	273,385
Inventory (Note 1)	35,153	32,374
Other assets (Note 6)	18,891	11,645
Total current assets	1,279,049	1,254,949
Noncurrent Assets		
Restricted cash and cash equivalents (Notes 2 & 4)	63,995	136,019
Restricted short-term investments (Notes 2 & 4)	25,343	813
Investments (Notes 3 & 4)	268,650	220,613
Restricted investments (Notes 3 & 4)	314,276	327,538
Restricted receivables, net (Note 5)	82,689	69,522
Donated property held for sale	1,969	2,165
Other assets (Note 6)	73,266	15,241
Capital assets, net (Note 7)	1,348,040	1,248,432
Total noncurrent assets	2,178,228	2,020,343
Total assets	3,457,277	3,275,292
LIABILITIES		
Current Liabilities		
Accounts payable	86,917	84,506
Accrued payroll	74,752	73,758
Compensated absences & early retirement benefits (Note 1)	4,966	4,509
Deferred revenue (Note 9)	31,947	26,609
Deposits & other liabilities (Notes 11 & 15)	123,175	87,299
Bonds, notes and contracts payable (Notes 14, 15, & 16)	25,497	24,847
Total current liabilities	347,254	301,528
Noncurrent Liabilities		
Compensated absences & early retirement benefits (Note 1)	39,101	37,123
Deposits & other liabilities (Notes 11 & 15)	12,617	28,074
Bonds, notes and contracts payable (Notes 14, 15, & 16)	371,264	391,082
Total noncurrent liabilities	422,982	456,279
Total liabilities	770,236	757,807
NET ASSETS		
Invested in capital assets, net of related debt	993,443	927,224
Restricted for		
Nonexpendable		
Instruction	109,208	116,024
Research	36,132	37,334
Public service	53,804	56,241
Academic support	33,956	36,021
Scholarships	112,064	109,297
Other	6,455	7,038
Expendable		
Research	133,498	174,619
Public service	84,935	62,073
Academic support	48,127	53,837
Institutional support	49,663	50,133
Loans	34,978	35,987
Debt service	868	1,146
Capital additions	148,029	158,685
Other	28,395	15,725
Unrestricted	813,486	676,101
Total net assets	$ 2,687,041	$ 2,517,485

The accompanying notes are an integral part of these financial statements

(in thousands of dollars)

For the Years Ended June 30

	2008	[For Comparison Only] 2007
OPERATING REVENUES AND EXPENSES		
Revenues		
Tuition and fees, net (Note 1)	$ 160,915	$ 152,820
Patient services, net (Notes 1 & 13)	937,047	883,032
Federal grants and contracts	187,436	191,764
State and local grants and contracts	14,813	22,612
Nongovernmental grants and contracts	78,566	71,741
Sales and services, net (Note 1)	472,607	420,813
Auxiliary enterprises, net (Note 1)	75,404	73,751
Other operating revenues	70,320	67,136
Total operating revenues	1,997,108	1,883,669
Expenses		
Compensation and benefits	1,226,252	1,133,059
Component units	287,603	250,279
Supplies	252,785	242,070
Purchased services	104,529	116,729
Depreciation and amortization	110,618	104,982
Utilities	56,958	51,131
Cost of goods sold	32,857	31,427
Repairs and maintenance	32,817	24,103
Scholarships and fellowships	24,556	23,766
Other operating expenses	148,065	115,358
Total operating expenses	2,277,040	2,092,904
Operating loss	(279,932)	(209,235)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	294,907	265,924
Government grants	18,481	17,307
Gifts	74,449	82,094
Investment income	22,412	128,871
Interest	(20,240)	(18,229)
Other nonoperating expenses	(13,525)	(13,313)
Total nonoperating revenues	376,484	462,654
Income before capital and permanent endowment additions	96,552	253,419
CAPITAL AND PERMANENT ENDOWMENT ADDITIONS		
Capital appropriations	12,238	58,397
Capital grants and gifts	43,274	133,617
Additions to permanent endowments	17,492	17,185
Total capital and permanent endowment additions	73,004	209,199
Increase in net assets	169,556	462,618
NET ASSETS		
Net assets - beginning of year as adjusted (Note 21)	2,517,485	2,054,867
Net assets - end of year	$ 2,687,041	$ 2,517,485

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

	2008	[For Comparison Only] 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees	$ 159,000	$ 153,169
Receipts from patient services	938,762	865,626
Receipts from contracts and grants	273,833	289,067
Receipts from auxiliary and educational services	550,095	493,479
Collection of loans to students	4,724	6,368
Payments to suppliers	(981,253)	(814,824)
Payments for compensation and benefits	(1,222,823)	(1,118,223)
Payments for scholarships and fellowships	(24,556)	(23,766)
Loans issued to students	(4,687)	(7,812)
Other	84,038	50,603
Net cash used by operating activities	(222,867)	(106,313)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	294,907	265,924
Government grants	18,481	17,307
Gifts		
Endowment	18,527	16,278
Nonendowment	76,879	60,318
Other	(13,125)	(12,946)
Net cash provided by noncapital financing activities	395,669	346,881
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		159,260
Capital appropriations	10,945	9,546
Gifts	17,747	20,144
Purchase of capital assets	(180,069)	(142,393)
Principal paid on capital debt	(40,186)	(72,239)
Interest paid on capital debt	(20,011)	(18,084)
Net cash used by capital and related financing activities	(211,574)	(43,766)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	549,863	872,892
Receipt of interest and dividends on investments	62,666	60,272
Purchase of investments	(680,191)	(1,026,740)
Net cash used by investing activities	(67,662)	(93,576)
Net increase (decrease) in cash	(106,434)	103,226
Cash - beginning of year	687,179	583,953
Cash - ending of year	$ 580,745	$ 687,179

Continued on next page...

(in thousands of dollars)

For the Years Ended June 30

	2008	[For Comparison Only] 2007
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (279,932)	$ (209,235)
Adjustments		
Depreciation expense	110,618	104,982
Change in assets and liabilities		
Receivables, net	(17,100)	(28,363)
Inventory	(2,779)	(2,369)
Donated property held for sale		
Other assets	(65,270)	(2,887)
Accounts payable	2,411	21,012
Accrued payroll	993	11,629
Compensated absences & early retirement benefits	2,435	3,207
Deferred revenue	5,339	2,868
Deposits and other liabilities	20,418	(7,157)
Net cash used by operating activities	$ (222,867)	$ (106,313)

	2008	2007
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital leases	$ 20,389	$ 14,847
Donated property and equipment	8,475	8,299
Completed construction projects transferred from State of Utah (Note 1)	1,292	48,851
Annuity and life income	163	163
Increase (decrease) in fair value of investments	(42,130)	65,146
Total noncash investing, capital, and financing activities	$ (11,811)	$ 137,306

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

- UURF is a not-for-profit corporation governed by a board of directors who, with the exception of one, are affiliated with the University. The operations of UURF include the leasing and administration of Research Park (a research park located on land owned by the University), the leasing of certain buildings, and the commercial development of patents and products developed by University personnel. As part of its mission to advance technology commercialization, UURF creates new corporate entities to facilitate the startup process. In general, these entities do not have assets. Expenses related to the companies are expensed as incurred. The fiscal year end for UURF is June 30. UURF is audited by other independent auditors and their report, dated September 29, 2008, has been issued under separate cover.

- ARUP is a for-profit corporation that provides clinical and anatomic pathology reference laboratory services to medical centers, hospitals, clinics and other clinical laboratories throughout the United States, including UUHC. ARUP contracts with the Department of Pathology of the University of Utah School of Medicine to provide pathology consulting services. The fiscal year end for ARUP is June 30. Other independent auditors audited ARUP and their report, dated September 4, 2008, 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.

Effective with the 2008 fiscal year, the University implemented the following new standards issued by the GASB:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Due to changes in the University's health plan for retirees, the effects of this standard were immaterial to the University and therefore had no effect on the financial statements.

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* Implementation of this standard resulted in slight modifications to various disclosures in the Notes to the Financial Statements.

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This statement is not effective until fiscal year 2009, however, the University early adopted this standard in the current year. As of June 30, 2008, the University did not have any remediation obligations subject to the accounting and financial reporting obligations of this standard.

B. Basis of Accounting

All statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Operating activities include all revenues and expenses, derived on an exchange basis, used to support the instructional, research and public service efforts, and other University priorities. Significant recurring sources of the University's revenues are considered nonoperating as defined by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and required by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities.* Operating revenues include tuition and fees, grants and contracts, patient services, and revenue from various auxiliary and public service functions. Nonoperating revenues include state appropriations, gifts, and investment income. Operating expenses include compensation and benefits, student aid, supplies, repairs and maintenance, utilities, etc. Nonoperating expenses primarily include interest on debt obligations.

Prior to the current fiscal year revenues from Pell grants and certain governmental grants were included in operating revenue. These revenues have been reclassified as nonoperating revenue and comparative information reclassified accordingly.

When both restricted and unrestricted resources are available, such resources are spent and tracked at the discretion of the department subject to donor restrictions, where applicable.

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the University recognizes gifts, grants, appropriations, and the estimated net realizable value of pledges as revenue as soon as all eligibility requirements imposed by the provider have been met. Patient revenue of UUHC and the School of Medicine medical practice plan is reported net of third-party adjustments.

C. Investments

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

A portion of the University's endowment portfolio is invested in "alternative investments". These investments, unlike more traditional investments, generally do not have readily obtainable market values and typically take the form of limited partnerships. See Note 19 for more information regarding these investments and the University's outstanding commitments under the terms of the partnership agreements. The University values these investments based on 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, 2008 and 2007:

Revenue Allowance	2008	2007
Tuition and fees	$ 21,919,239	$ 18,101,747
Patient services	48,537,228	40,797,926
Sales and services	23,769	3,530
Auxiliary enterprises	804,377	750,806

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, 2008, were approximately $8,380,000.

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, 2008, was approximately $40,801,000.

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, 100 employees participate in the early retirement program. The University pays each early retiree an annual amount equal to the lesser of 20% of the retiree's final salary or their estimated social security benefit, as well as health care and life insurance premiums, which is approximately 50% of their early retirement salary, until the employee reaches full social security retirement age. In accordance with GASB Statement No. 47, *Accounting for Termination Benefits*, the amount recognized on the financial statements was calculated at the discounted present value of the projected future costs. A discount rate of 4.052% was used and is based on the average rate earned by the University on cash management investments for the fiscal year. The funding for these early retirement benefits is provided on a pay-as-you-go basis. For the year ended June 30, 2008, these expenditures were approximately $2,039,000.

H. Construction

The Utah State Division of Facilities Construction and Management (DFCM) administers most of the construction of facilities for state institutions, maintains records, and furnishes cost information for recording plant assets on the books of the University. Interest expense incurred for construction of capital facilities is considered immaterial and is not capitalized. Construction projects administered by DFCM are not recorded on the books of the University until the facility is available for occupancy.

I. Disclosures

Financial information for fiscal year ended June 30, 2007 is included for comparison only and is not complete. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Complete information is available in the separately issued financial statements for that year.

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

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

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

Short-term investments have original maturities longer than three months and remaining maturities of one year or less.

At June 30, 2008, cash and cash equivalents and short-term investments consisted of:

Cash and Cash Equivalents

Cash	$ (3,563,463)
Money market funds	1,983,738
Time certificates of deposit	50,717,860
Commercial paper	9,436,549
Obligations of the U.S. Government and its agencies	336,799,634
Utah Public Treasurer's Investment Fund	185,370,920
Total (fair value)	$ 580,745,238

Short-term Investments

Time certificates of deposit	$ 203,895
U.S. Agencies	59,516,091
U.S. Treasuries	368,593,698
Corporate notes	16,508,376
Total (fair value)	$ 444,822,060

3. INVESTMENTS

Funds available for investment are pooled to maximize return and minimize administrative cost, except for funds that are authorized by the University administration to be separately invested or which are separately invested to meet legal or donor requirements. Investments received as gifts are recorded at fair value on the date of receipt. If fair value is not available, investments received as gifts are recorded at a nominal value. Other investments are also recorded at fair value.

UURF receives, in exchange for patent rights, 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, 2008.

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

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

The endowment income spending policy at June 30, 2008, 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. In general, nearly all of the University's endowment is subject to spending restrictions.

The amount of net appreciation on investments of donor-restricted endowments available for authorization for expenditure at June 30, 2008, was approximately $92,257,000. The net appreciation is a component of restricted expendable net assets.

At June 30, 2008, the investment portfolio composition was as follows:

Investments	
U.S. Treasuries	$ 139,007,485
Corporate notes and bonds	5,675,486
Asset backed securities	79,283
Mutual funds	425,479,000
Common and preferred stocks	12,684,902
Total (fair value)	$ 582,926,156

4. DEPOSITS AND INVESTMENTS

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

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

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

Deposits

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

At June 30, 2008, the carrying amounts of the University's deposits and bank balances were $56,624,250 and $59,468,501, 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 $59,268,501 exposed to custodial credit risk. The University's policy for reducing this risk of loss is to deposit all such balances in qualified depositories, as defined and required by the Act.

Investments

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

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

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

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

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

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

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act or the UPMIFA and Rule 541, as applicable. For non-endowment funds, Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years. For endowment funds, Rule 541 is more general, requiring only that investments be made as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowments and by exercising reasonable care, skill, and caution.

As of June 30, 2008, the University had investments with maturities as shown in *Figure 1.*

Figure 1.

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
Money market mutual funds	$ 1,699,834	$ 1,699,834			
Time cerificates of deposit	203,895	203,895			
Commercial paper	9,436,549	9,436,549			
Utah Public Treasurer's Investment Fund	185,370,920	185,370,920			
U.S. Treasuries	507,601,183	368,593,698	$ 139,007,485		
U.S. Agencies	396,315,725	396,315,725			
Corporate notes and bonds	22,183,862	16,508,376	5,670,486		$ 5,000
Asset backed securities	79,283		79,283		
Mutual bond funds	123,484,325		4,484,264	$ 119,000,061	
Totals	$ 1,246,375,576	$ 978,128,997	$ 149,241,518	$ 119,000,061	$ 5,000

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

At June 30, 2008, the University had investments with quality ratings as shown in *Figure 2.*

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of its investments that are in the possession of an outside party. The University's policy for reducing its exposure to custodial credit risk is to comply with applicable provisions of the Act. As required by the Act, all applicable securities purchased were delivered versus payment and held in safekeeping by a bank. Also, as required, the ownership of book-entry-only securities, such as U.S. Treasury or Agency securities, by the University's custodial bank was reflected in the book-entry records of the issuer and the University's ownership was represented by a receipt, confirmation, or statement issued by the custodial bank.

At June 30, 2008, the University's custodial bank was both the custodian and the investment counterparty for $871,221,808 of U.S. Treasury and Agency securities purchased by the University and $32,695,100 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 UPMIFA and Rule 541, as applicable. Rule 17 of the Council limits non-endowment fund investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

For endowments, the University, under Rule 541, is permitted to establish its own investment policy which adheres to the guidelines established by UPMIFA. Accordingly, the University's Pool Asset Allocation Guidelines allocates endowment funds in the following asset classes:

Asset Class	Target Allocation	Allocation Range
Global Marketable Equities	45%	20% - 60%
Global Marketable Fixed Income	30%	25% - 50%
Alternatives	25%	5% - 30%

The University diversifies assets among multiple investment managers of varying investment styles to the extent that such diversification can be expected to reduce risk without sacrificing expected investment return, or that such diversification may produce greater investment return without incurring any greater risk.

Figure 2.

Investment Type	Fair Value	Quality Rating AAA/A-1	A	Unrated	No Risk
Money market mutual funds	$ 1,699,834	$ 326,162		$ 1,373,672	
Time cerificates of deposit	203,895		$ 203,895		
Commercial paper	9,436,549	9,436,549			
Utah Public Treasurer's Investment Fund	185,370,920			185,370,920	
U.S. Treasuries	507,601,183				$ 507,601,183
U.S. Agencies	396,315,725	396,315,725			
Corporate notes and bonds	22,183,862		22,178,862	5,000	
Asset backed securities	79,283		79,283		
Mutual bond funds	123,484,325			123,484,325	
Totals	$ 1,246,375,576	$ 406,078,436	$ 22,462,040	$ 310,233,917	$ 507,601,183

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. 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, 2008, including approximately $25,759,000 and $56,930,000 of noncurrent loans and pledges receivable, respectively:

Accounts	$ 368,317,794
Contracts and grants	37,944,936
Notes	99,431
Loans	32,190,854
Pledges	61,929,965
Interest	6,376,721
	506,859,701
Less allowances for doubtful accounts	(135,394,818)
Receivables, net	$ 371,464,883

6. DEFERRED CHARGES AND OTHER ASSETS

The costs associated with issuing long-term bonds payable are deferred and amortized over the life of the related bonds using the straight-line method, which approximates the effective interest method. In addition, goodwill associated with the purchase of certain health clinics and prepaid rent for the Huntsman Cancer Hospital are 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 $1,000 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, 2008, the University had outstanding commitments for the construction and remodeling of University buildings of approximately $33,451,000.

Capital assets at June 30, 2008, are shown in *Figure 3.*

8. PENSION PLANS AND RETIREMENT BENEFITS

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

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

The Systems are established and governed by the respective sections of Chapter 49 of the *Utah Code Annotated, 1953*, as amended. The Utah State Retirement Office Act provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a 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.

Figure 3.	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	$ 1,310,915,276	$ 48,938,551		$ 1,359,853,827
Infrastructure and improvements	156,032,004	6,403,651		162,435,655
Land	17,267,135	1,611,300		18,878,435
Equipment	536,739,203	59,115,327	$ 32,066,585	563,787,945
Library materials	148,723,428	5,027,708	146,775	153,604,361
Art and special collections	43,518,035	4,129,126	11,000	47,636,161
Construction in progress	104,385,913	119,210,524	32,944,642	190,651,795
Total cost	2,317,580,994	244,436,187	65,169,002	2,496,848,179
Less accumulated depreciation				
Buildings	525,209,026	45,612,105		570,821,131
Infrastructure and improvements	85,371,495	8,933,074		94,304,569
Equipment	369,728,047	49,558,249	30,205,958	389,080,338
Library materials	88,839,919	5,761,994		94,601,913
Total accumulated depreciation	1,069,148,487	109,865,422	30,205,958	1,148,807,951
Capital assets, net	$ 1,248,432,507	$ 134,570,765	$ 34,963,044	$ 1,348,040,228

TIAA-CREF, Fidelity, and Vanguard provide individual retirement fund contracts with each participating employee. Employees may allocate contributions by the University to any or all of the providers and the contributions to the employee's contract(s) become vested at the time the contribution is made. Employees are eligible to participate from the date of employment and are not required to contribute to the fund. Benefits provided to retired employees are based on the value of the individual contracts and the estimated life expectancy of the employee at retirement. For the year ended June 30, 2008, the University's contribution to these defined contribution pension plans was 14.20% of the employees' annual salaries. Additional contributions are made by the University based on employee contracts. The University has no further liability once contributions are made. Certain UUHC employees hired prior to January 1, 2001, were fully vested as of that date. Employees hired subsequent to January 1, 2001, are 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. Effective August 4, 2007, ARUP implemented a change in the defined contribution pension plan which allows employees to choose whether to continue to pay into the federal social security tax system or to participate in an enhanced ARUP retirement program. For those who choose to continue to pay social security taxes, ARUP makes contributions each pay period amounting to 5.00% of their compensation and ARUP continues to make matching social security tax contributions. For those who discontinue paying social security taxes, ARUP makes contributions each pay period amounting to 8.10% of their compensation and do not have any social security tax contributions made by ARUP on their behalf. All minimum service and vesting requirements relating to pension contributions have been eliminated for all employees and contributions become vested at the time the contribution is made.

Contributions to the profit sharing plan are at the discretion of ARUP and are made subject to certain tenure-based and hours-worked thresholds. Employees are fully vested in the profit sharing plan after five years of service.

For the years ended June 30, 2008, 2007, and 2006, the University's contributions to the Systems were equal to the required amounts, as shown in *Figure 4.*

9. DEFERRED REVENUE

Deferred revenue consists of summer session tuition and fees, advance payments on grants and contracts, advance ticket sales for various athletic and cultural events, and results of normal operations of auxiliary enterprises and service units.

10. FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others are neither in the possession of nor under the management of the University. These funds, which are not recorded on the University's financial records and which arose from contributions, are held and administered by external fiscal agents, selected by the donors, who distribute net income earned by such funds to the

Figure 4.	2008	2007	2006
State and School Contributory Retirement System	$ 1,555,310	$ 1,581,565	$ 1,489,378
State and School Noncontributory Retirement System	25,209,056	24,259,347	22,257,303
Public Safety Noncontributory Retirement System	316,579	328,163	289,291
TIAA-CREF	63,247,520	70,903,307	65,126,133
Fidelity	7,457,205		
Vanguard	1,808,724		
Pension plan	7,280,524	3,498,662	3,140,908
Profit sharing plan	7,036,696	6,050,982	4,723,787
Total contributions	$ 113,911,614	$ 106,622,026	$ 97,026,800

University, where it is recorded when received. The fair value of funds held in trust at June 30, 2008, was $90,822,788.

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In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of $9,622,820 as of June 30, 2008, based on a predetermined formula. The fair value of this stock as of June 30, 2008 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, 2008, 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, 2008, and the estimated liability for self-insurance claims at that date in the Statement of Net Assets. The income on fund investments, the expenses related to the administration of the self-insurance and malpractice liability trust funds, and the estimated provision for the claims liability for the year then ended are recorded in the Statement of Revenues, Expenses, and Changes in Net Assets.

12. INCOME TAXES

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

Figure 5.

	2008	2007
Estimated claims liability - beginning of year	$ 66,157,336	$ 54,505,514
Current year claims and changes in estimates	147,574,679	153,046,890
Claim payments, including related legal and administrative expenses	(143,202,964)	(141,395,068)
Estimated claims liability - end of year	$ 70,529,051	$ 66,157,336

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, 2008, were approximately $27,829,000.

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.

At June 30, 2008, the historical cost of land and buildings held for lease and the related accumulated depreciation were $39,153,488 and $12,323,859, respectively.

B. Commitments

The University leases buildings and office and computer equipment. Capital leases are valued at the present value of future minimum lease payments. Assets associated with the capital leases are recorded as buildings and equipment together with the related long-term obligations. Assets currently financed as capital leases amount to $7,420,000 and $88,065,655 for buildings and equipment, respectively. Accumulated depreciation for these buildings and equipment amounts to $556,500 and $50,024,845, 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 $26,309,626 for the University and $5,108,023 for component units for the year ended June 30, 2008. Total operating lease commitments for the University include approximately $12,049,426 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 real estate investment trust in which one of its directors is a shareholder. 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, 2008 were $4,811,812.

Future minimum lease commitments for operating and capital leases as of June 30, 2008 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, 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, 2008, is $5,600,000.

Figure 6.

	Fiscal Year	Operating	Capital
	2009	$ 25,259,903	$ 14,208,656
	2010	22,341,808	11,962,653
	2011	19,829,233	9,784,566
	2012	16,963,371	7,732,049
	2013	14,622,137	5,306,211
	2014 – 2018	43,714,329	4,911,628
	2019 – 2023	20,765,407	2,883,041
	2024 – 2028	5,317,368	144,378
	2029 – 2029	31,964	
Total future minimum lease payments		$ 168,845,520	56,933,182
Amount representing interest			(6,462,427)
Present value of future minimum lease payments			$ 50,470,755

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. Through June 30, 2008, 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 1.60%, which is the rate in effect at June 30, 2008.

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. Through June 30, 2008, 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 7.00%, which is the rate in effect at June 30, 2008.

The University has received funding from the U. S. Department of Health and Human Services, through the Utah State Department of Health (Department), for medical education. The receipt of such funds was inconsistent with the timing requirements of the plan administered by the Department. The Department has requested that those funds be returned during fiscal year 2009. Accordingly, the University has recorded a current liability for the amount due the Department in the amount of $32,830,770.

The following schedule lists the outstanding bonds payable and certificates of participation of the University at June 30, 2008:

Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2008
Auxiliary and Campus Facilities						
Series 1987A - Refunding	3/1/87	2014	3.750% - 6.750%	$ 11,140,000	$ 235,000	$ 1,050,000
Series 1997A - Revenue	7/30/97	2027	Variable	52,590,000	1,190,000	10,000,000
Series 1998A - Revenue & Refunding	7/1/98	2016	4.100% - 5.250%	120,240,000	22,972	53,687,274
Series 1999A - Revenue	5/1/99	2014	4.000% - 4.800%	5,975,000	442,267	2,982,234
Series 2001 - Revenue	7/18/01	2021	3.500% - 5.125%	2,755,000	118,698	2,092,173
Series 2005A - Refunding	8/2/05	2021	3.000% - 5.000%	42,955,000	2,703,056	42,961,100
Hospital						
Series 1998A - Revenue	6/1/98	2013	5.250% - 5.375%	25,020,000	3,232,594	3,232,594
Series 2005A - Revenue & Refunding	7/14/05	2018	4.500%- 5.000%	30,480,000	71,675	32,326,434
Series 2006A - Revenue & Refunding	10/26/06	2032	4.000% - 5.250%	77,145,000	108,382	82,125,098
Series 2006B - Revenue	10/26/06	2032	Variable	20,240,000		20,240,000
Research Facilities						
Series 2004A - Revenue	6/30/04	2019	3.000% - 4.700%	9,685,000	552,279	7,565,902
Series 2005A - Revenue	2/15/05	2025	3.000% - 5.000%	5,515,000	214,885	5,060,896
Series 2005B - Refunding	6/07/05	2020	3.000% - 5.000%	20,130,000	1,475,308	16,742,019
Series 2007A - Revenue	6/28/07	2022	4.600% - 4.740%	10,000,000	495,000	9,420,000
Certificates of Participation						
Series 2007	4/3/07	2027	4.000% - 5.500%	42,450,000	721,730	41,589,777
Total					$ 11,583,846	$ 331,075,501

UURF has purchased three buildings with two mortgages that are guaranteed by the University. The remaining amounts of the mortgages are $5,755,536 at 8.87% interest and $2,828,953 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 $3,167,714 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, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$ 302,423,548		$ 12,937,824	$ 289,485,724	$ 10,862,116
Certificates of participation	42,677,861		1,088,084	41,589,777	721,730
Capital leases payable	55,277,595	$ 20,389,309	25,196,149	50,470,755	12,533,154
Notes and contracts payable	15,549,775	849,271	1,185,005	15,214,041	1,379,715
Total long-term debt	415,928,779	21,238,580	40,407,062	396,760,297	25,496,715
Compensated absences	41,632,191	31,578,884	29,143,491	44,067,584	4,966,130
Deposits & other liabilities	96,699,286	126,438,838	87,346,301	135,791,823	123,174,904
Total long-term liabilities	$ 554,260,256	$ 179,256,302	$ 156,896,854	$ 576,619,704	$ 153,637,749

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

	Payments	
Fiscal Year	Principal	Interest
2009	$ 25,496,715	$ 18,393,270
2010	24,722,221	17,340,647
2011	25,464,800	16,309,694
2012	22,277,604	15,264,687
2013	20,600,783	14,360,831
2014 - 2018	82,674,286	59,966,793
2019 – 2023	77,765,066	40,217,701
2024 – 2028	75,509,695	21,769,999
2029 – 2032	42,249,127	3,901,443
Total	$ 396,760,297	$ 207,525,065

Interest related to bonds systems with pledged revenues amounts to $173,844,181 and is included in the interest amounts in the above schedule.

16. RETIREMENT OF DEBT

In prior years, the University defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds. 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, 2008, is $58,540,000.

17. FUNCTIONAL CLASSIFICATION OF EXPENSES

The following schedule presents operating expenses by functional classification for the year ended June 30, 2008:

Function	Amount (in thousands)
Instruction	$ 282,156
Research	212,235
Public service	416,931
Academic support	78,307
Student services	20,252
Institutional support	63,929
Operation & maintenance of plant	56,004
Student aid	38,588
Other	442,392
Hospital	666,246
Total	$ 2,277,040

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, Housing and Residential Education, University Student Apartments, Commuter Services, Jon M. Huntsman Center, Rice-Eccles Stadium, and the Olpin Student 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.

Figure 7 presents the net revenue pledged to the applicable bond system and the principal and interest paid for the year ended June 30, 2008.

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, 2008, the University had committed, but not paid, a total of $17,659,128 in funding for these alternative investments.

20. SUBSEQUENT EVENTS

On October 7, 2008, the University issued $9,360,000 of Research Facilities Revenue Refunding Bonds, Series 2008A. Principal on the bonds is due annually commencing April 1, 2009 through April 1, 2022. Bond interest is due semiannually commencing April 1, 2009 at rates ranging from 3.25% to 5.00%. Proceeds from these bonds will be used to fully refund Research Facilities Revenue Bonds, Series 2007A.

The financial markets have experienced volatility and downward pressure on asset value since June 30, 2008, which has affected the University's investment portfolio.

21. PRIOR PERIOD ADJUSTMENT

In fiscal year 2002, the State of Utah issued bonds to finance construction of the Huntsman Cancer Hospital. The University entered into an operating lease agreement with the State where the lease payments were equal to the debt service of the bonds. Lease expense was recorded on a cash basis but should have been amortized over the life of the bonds.

In fiscal year 2008, the University determined that the lease transaction had been recorded incorrectly resulting in a prior period adjustment to beginning net assets. Because fiscal year 2007 amounts are presented, for comparison only, the adjustment was made to fiscal year 2007 beginning net assets and operating expenses. Operating expenses were increased in fiscal year 2007 by $517,918.

The adjustments of $18,156,160 reduced fiscal year 2007 beginning net assets from $2,073,023,227 to $2,054,867,067. A corresponding liability of $18,674,079 was also recorded for the fiscal year 2007 restatement. Ending net assets for fiscal year 2007 were previously reported as $2,536,158,678, but have likewise been reduced by $18,674,079 to reflect this adjustment and are reported as $2,517,484,599 in the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

Figure 7.

	Bond Systems		
	Auxiliary & Campus Facilities	Hospital	Research Facilities
Revenue			
Operating revenue	$ 65,294,285	$ 768,272,427	$ 59,857,357
Nonoperating revenue	5,629,038	7,629,076	
Total revenue	70,923,323	775,901,503	59,857,357
Expenses			
Operating expenses	54,067,211	705,370,663	49,698,404
Nonoperating expenses		193,339	
Total expenses	54,067,211	705,564,002	49,698,404
Net pledged revenue	$ 16,856,112	$ 70,337,501	$ 10,158,953
Principal paid and interest expense	$ 11,045,819	$ 9,175,277	$ 7,975,198

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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

THE UNIVERSITY OF UTAH