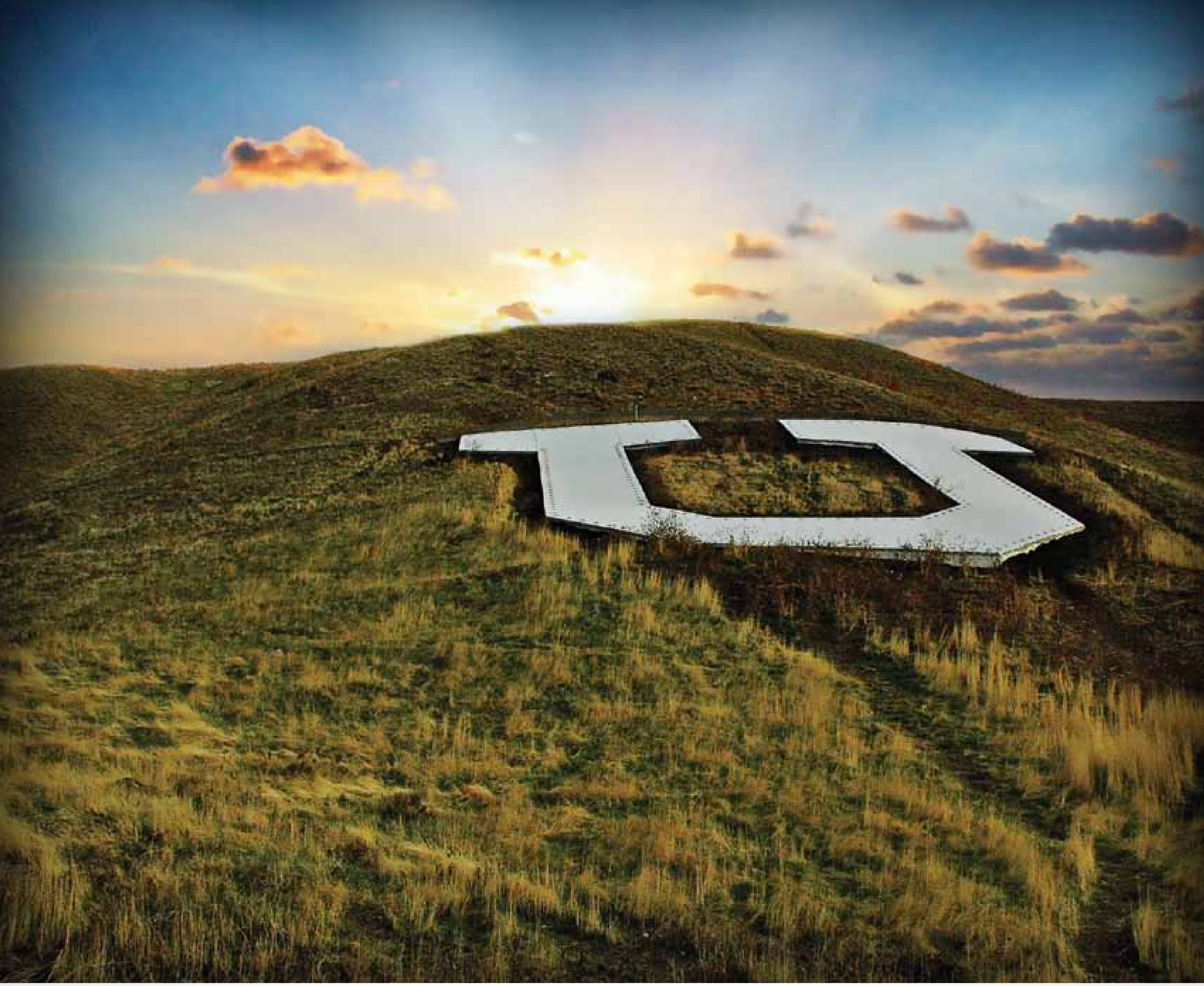

2011 Annual Financial Report

The University of Utah

A Component Unit of the State of Utah

THE UNIVERSITY OF UTAH

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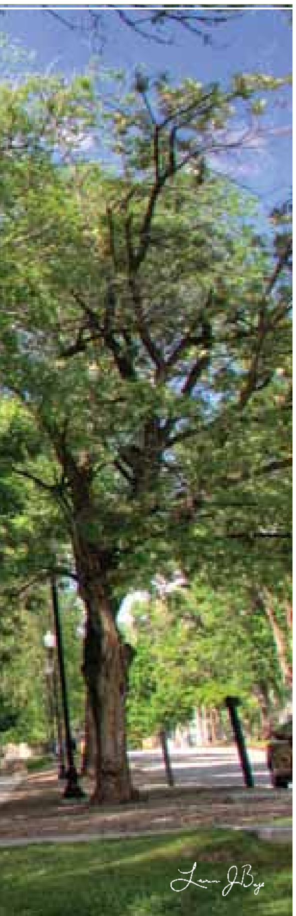

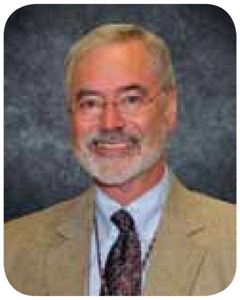

Message from Interim President A. Lorris Betz, M.D., Ph.D.

Thanks to the vision, effort, and generosity of literally thousands of dedicated people, the University of Utah stands tall among the nation's top universities. As recently noted by the Utah State Board of Regents, the University is "in the midst of an upward trajectory across all measures" and "is in a period of tremendous growth and possibility."

We have much to celebrate this year—it has been one of exciting transition, impressive growth, and continued academic and innovative success. We have embarked on a new era as we've joined with other world-class institutions in the Pac-12. While this milestone will do much for U athletics, our inclusion in this elite group of institutions is based on much more than athletic success; it is an affirmation of the U's academic and research excellence by the other outstanding institutions of higher learning in the conference. Pac-12 schools have long shared a rich tradition of hands-on, empirical learning at the hands of world-class educators, many of whom are leaders in their fields. We share that same distinguished heritage of learning and discovery at the U. Like our new peers in the Pac-12, we promote the discovery of profound innovation through interdisciplinary learning and collaboration. Like those institutions, we give home to National Academy Members, globally renowned experts, and Nobel Prize winners. Along with them, we invite the best and brightest students from across the globe to engage in a truly transformative educational environment and experience, one that prepares them for real-world challenges and opportunities.

The University is moving with unprecedented momentum—as a leader in technological and commercial innovation, and in the excellent education we provide our students—and we are determined not to lose a step in the days ahead. We are fully committed to our role of developing leaders and innovators for our community, the State of Utah, and the world. We will continue to make the time our students spend with us extraordinary and transformative. As our campus grows, both literally and figuratively, we will make sure new generations of leaders grow right along with it.

I am pleased to present this financial report for the University's 2011 fiscal year. As you review our financial statistics, I encourage you to also envision the countless hours spent by hundreds of dedicated people in classrooms, libraries, laboratories, clinics, and offices. I particularly recognize the tireless efforts of exceptional faculty leaders and skilled administrators who serve as stewards of the University's resources. Due to their diligence, the University is well recognized for its effective management and financial vitality.


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Auston G. Johnson, CPA
UTAH STATE AUDITOR

DEPUTY STATE AUDITOR:
Joe Christensen, CPA

FINANCIAL AUDIT DIRECTORS:
Van H. Christensen, 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
Dr. Lorris Betz, Interim President
University of Utah

We have audited the accompanying basic financial statements of the University of Utah (the University), a component unit of the State of Utah, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Utah Hospitals and Clinics or the University's blended component units, which represent approximately 25% ($1,110,651,000) of total assets and 45% ($1,361,546,000) 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 2010 financial statements and, in our report dated November 18, 2010, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011 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, CPA
Utah State Auditor
October 14, 2011

MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the University of Utah (University) and its component units for the year ended June 30, 2011, with selected comparative information for prior fiscal years. This discussion has been prepared by management and should be read in conjunction with the Financial Statements and the Notes to the Financial Statements, which follow this discussion and analysis.

The University of Utah's Financial Statements include revenues, expenses, assets, liabilities, and net assets for the entire University entity, including the University Hospitals and Clinics – as well as the balances and activities of two component units: the University of Utah Research Foundation (UURF) and ARUP Laboratories, Inc. (ARUP). UURF specializes in the transfer of patented technology to business entities as well as the leasing and administration of Research Park (a research park located on land owned by the University). ARUP is a national clinical and anatomic pathology reference laboratory. More information about these entities and their inclusion in the financial statements may be found in Note 1 – *Summary of Significant Accounting Policies – Reporting Entity.*

ABOUT THE UNIVERSITY OF UTAH

Founded in 1850, the University of Utah is the state's oldest and largest institution of higher education and is the flagship institution of the state system of higher education. The University offers over 100 undergraduate and more than 90 graduate degree programs to over 30,000 students. With more than 23,000 employees, it is one of the state's largest employers.

The University is tops in the country for creating start-up companies from university research, according to a ranking by the Association of University Technology Managers (AUTM). Forbes magazine's recent ranking of the "Best States for Business" pointed to "an educated labor force" as a big reason Utah came in at number one. The University supplies many of the employees for companies that keep expanding their operations in Utah, such as Goldman Sachs, Adobe, Omniture, Oracle, Ebay and many others.

The University has a plan to be carbon neutral by 2050. In fall 2010, the University released its Energy and Environmental Stewardship Initiative: 2010 Climate Action Plan, detailing its long-range plans to make the campus even more environmentally friendly. In addition, the U.S. Environmental Protection Agency (EPA) recently ranked the University fourth in the nation for green power purchases.

University Health Care has ranked in the top ten for the last two years in a prestigious national study. The University Health System Consortium's Quality and Accountability Study compares 98 of the nation's top academic medical centers and ranks them based on core quality measures, patient safety indicators, mortality rates, re-admission rates, and patient satisfaction scores.

The financial statements that follow provide additional information on the resources available to the University to accomplish its multi-dimensional mission, and to achieve its goals and objectives, including the many exciting things described above. For more information about the University and its programs and initiatives, please visit *www.utah.edu*.

OVERVIEW AND ANALYSIS OF THE FINANCIAL STATEMENTS

The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. Three financial statements are presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The Notes to the Financial Statements are an integral part of the statements and provide additional details and information important to an understanding of the University's financial position and results of operations.

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets, liabilities, and net assets of the University. Net assets are one indicator of the current financial condition of the University. Assets and liabilities are generally measured using current values except for capital assets, which are stated at historical cost less accumulated depreciation.

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations for the fiscal year. The net difference between revenues and expenses, and other changes, is the increase (or decrease) in net assets for the year. The change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

The Statement of Cash Flows provides additional information about the University's financial results by reporting the major sources and uses of cash by type of activity – as well as providing a reconciliation to the net operating loss.

STATEMENT OF NET ASSETS

A condensed statement of net assets for the past five fiscal years is shown in *Figure 1* on page 9.

Total assets increased 10.7% from the prior year and 34.5% over the five year period – due to steady growth in all of the operating revenue categories, along with respectable showings in recent years for investment income. Liabilities have also increased over the five year period, with the jump of 18.1% in FY2011 primarily due to additional long-term debt issued in conjunction with capital construction projects. Total net assets – the difference between total assets and total liabilities, have increased each year for the past five years. These increases indicate steady improvement in financial condition, reflecting the University's prudent management of its resources – despite recent turmoil in the financial markets and other funding challenges.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The results of the University's operations for the fiscal year are shown in the Statement of Revenues, Expenses, and Changes in Net Assets. A condensed statement of revenues, expenses, and changes in net assets for the past five fiscal years is shown in *Figure 2* on page 10.

Revenues from tuition and fees increased 17.2% from the prior year – and 54.4% over the five year period. This consistently upward trend is reflective of the students' increased contribution toward the University's budget - as state appropriations have remained essentially flat (increasing 1.6% from the prior year but decreasing 7.1% over the five year period). State stimulus dollars funded by ARRA are not included in these figures. State appropriations are classified as a nonoperating revenue for financial statement purposes.

Patient services revenues increased 7.8% from the prior year despite the economy and the changing health care environment; and have increased 33.4% over the five year period. This consistent growth reflects the University Health Care's commitment to grow in capacity and quality in servicing the health care needs of the intermountain region.

Sales and services revenue increased 2.3% from the prior year, and also maintained a consistent upward trend for the five year period – increasing 39.0%. The largest contributor to the increase is growth in ARUP's revenues over the period.

With contributions from these significant sources, total operating revenues have increased 6.8% and 33.6%, from the prior year and for the five year period, respectively.

Operating expenses, while generally constrained, have increased as well; 6.3% over the prior year and 31.3% for the five year period. With compensation and benefits representing 53.9% of total operating expenses for the current fiscal year, any change in that expense category, even if modest, can have significant impacts on total operating expenses. While salaries have generally been held in check for the past three years due to funding constraints, recruitment and retention of the University's excellent professors, researchers, and physicians requires the payment of competitive salaries. In addition, certain areas of the University are expanding their workforce, which drives increases in this line. More detail on operating expenses appears in *Figure 3* on page 11.

As a public university, the University of Utah receives funds from a variety of sources in support of its operations. While the Statement of Revenues, Expenses, and Changes in Net Assets classifies certain funds as "nonoperating" for the purposes of financial reporting, such funds do, in fact, support the University's operations by covering costs such as salaries and benefits, travel, research expenses, and student aid.

Figure 1

Condensed Statement of Net Assets – as of June 30 (in thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Current assets	$1,216,912	$1,149,117	$1,218,554	$1,279,049	$1,254,949
Noncurrent assets					
Capital assets, net	1,867,630	1,681,491	1,578,878	1,348,040	1,248,432
Other noncurrent asset	1,321,213	1,151,039	834,568	830,188	771,911
Total Assets	4,405,755	3,981,647	3,632,000	3,457,277	3,275,292
Current liabilities	388,042	353,846	361,738	347,254	301,528
Noncurrent liabilities	615,813	496,329	406,125	422,982	437,605
Total Liabilities	1,003,855	850,175	767,863	770,236	739,133
Invested in capital assets, net of related debt	1,352,284	1,289,089	1,202,270	993,443	927,224
Restricted, nonexpendable	405,093	342,260	308,513	351,619	361,955
Restricted, expendable	547,255	543,482	512,701	528,493	552,205
Unrestricted	1,097,268	956,641	840,653	813,486	694,775
Total Net Assets	$3,401,900	$3,131,472	$2,864,137	$2,687,041	$2,536,159

Figure 2

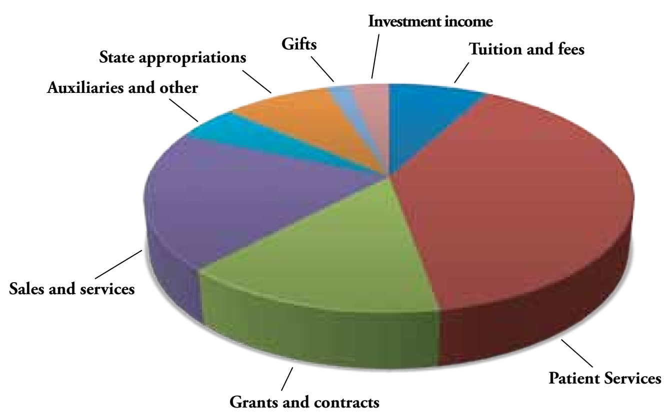
Condensed Statement of Revenues, Expenses, and Changes in Net Assets - for the years ended June 30 (in thousands)[1]	**2011**	**2010**	**2009**	**2008**	**2007**
Operating revenues					
Tuition and fees, net	$ 235,925	$ 201,300	$ 169,351	$ 160,915	$ 152,820
Patient services, net	1,178,146	1,092,663	1,067,747	937,047	883,032
Grants and contracts	383,801	343,842	307,574	280,815	298,986
Sales and services	584,999	571,859	526,323	472,607	420,813
Auxiliary and other	150,769	163,190	129,933	145,724	140,887
Total operating revenues	2,533,640	2,372,854	2,200,928	1,997,108	1,896,538
Operating expenses	2,746,927	2,584,244	2,453,010	2,277,040	2,092,386
Operating loss	(213,287)	(211,390)	(252,082)	(279,932)	(195,848)
Nonoperating revenues					
State appropriations	250,536	246,631	266,761	294,907	269,700
Gifts	56,229	64,826	65,037	74,449	82,094
Investment income (loss)	95,824	62,661	(45,153)	22,412	128,871
Other net nonoperating revenue (expense)	22,477	40,813	2,016	(15,284)	(30,880)
Total nonoperating revenues	425,066	414,931	288,661	376,484	449,785
Income before capital and permanent endowment additions	211,779	203,541	36,579	96,552	253,937
Capital and permanent endowment additions	58,649	63,794	140,517	73,004	209,199
Increase in net assets	270,428	267,335	177,096	169,556	463,136
Net assets - beginning of year	3,131,472	2,864,137	2,687,041	2,517,485	2,073,023
Net assets - end of year	$3,401,900	$3,131,472	$2,864,137	$2,687,041	$2,536,159

[1] As reported in each year's audited financial statements. Effects, if any, of subsequent restatements are not included.

Figure 3

Total Expenses	**2011**	**2010**	**2009**	**2008**	**2007**
Operating expenses					
Compensation and benefits	$1,480,663	$1,413,344	$1,339,703	$1,226,252	$1,133,059
Component units	356,599	347,731	328,196	287,603	250,279
Supplies	306,491	292,367	277,509	252,785	242,070
Depreciation and amortization	139,935	131,965	118,475	110,618	104,982
Other	463,239	398,837	389,127	399,782	361,996
Total operating expenses	2,746,927	2,584,244	2,453,010	2,277,040	2,092,386
Nonoperating expenses					
Interest and other	35,364	35,794	32,481	33,765	30,880
Total expenses	$2,782,291	$2,620,038	$2,485,491	$2,310,805	$2,123,266

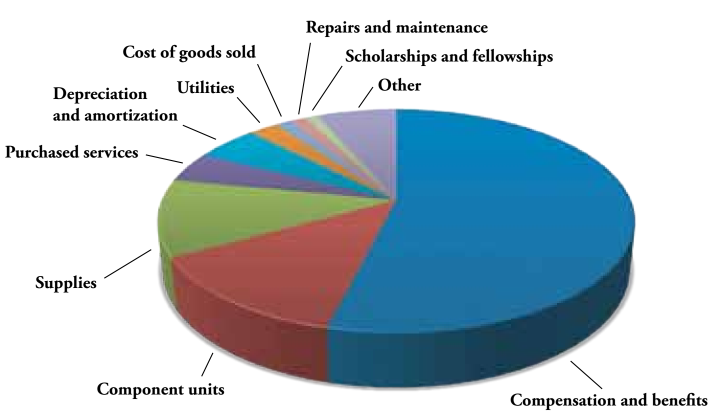
The graph below shows the various types of funding available to support the operations of the University:



Sources of Revenue in Support of Operations
Fiscal Year Ending June 30, 2011

Tuition and fees	235,925
Patient Services	1,178,146
Grants and contracts	441,642
Sales and services	584,999
Auxiliaries and other	150,769
State appropriations	250,536
Gifts	56,229
Investment income	95,824

A graphical presentation of the University's operating expenses appears below:

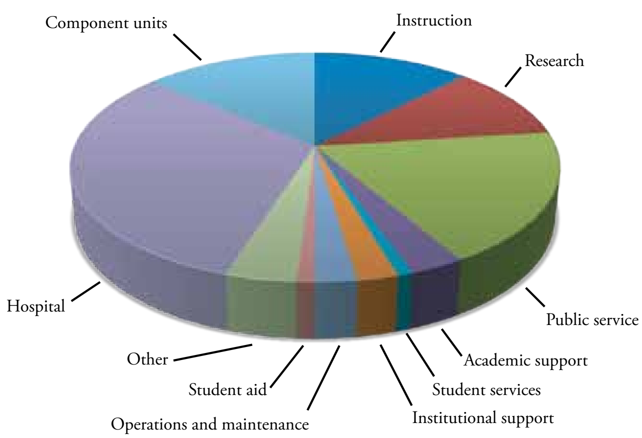


Operating Expenses
For the Year Ended June 30, 2011

Compensation and benefits	1,480,663
Component units	356,599
Supplies	306,491
Purchased services	121,844
Depreciation and amortization	139,935
Utilities	64,820
Cost of goods sold	33,837
Repairs and maintenance	36,866
Scholarships and fellowships	28,319
Other	177,553

Note 17 provides more information regarding the classification of operating expenses by "function" (or purpose) as an alternative view to that which is presented on the face of the financial statements.

A graphical presentation of the breakdown of operating expenses by functional classification follows:



Functional Classification of Operating Expenses
For the Year Ended June 30, 2011

Instruction	$339,175
Research	292,239
Public service	509,184
Academic support	83,696
Student services	23,632
Institutional support	62,534
Operations and maintenance	62,295
Student aid	28,325
Other	108,714
Hospital	860,491
Component units	376,642

STATEMENT OF CASH FLOWS

A condensed version of the Statement of Cash Flows is shown *Figure 4* below.

Cash flows from operations benefitted from increasing cash receipts from all areas – including tuition and fees, patient services, grants and contacts, and auxiliaries. As mentioned in previous sections, all of these areas have demonstrated significant and consistent upward trends over the past five years. Payments to suppliers and employees were also up, but not as significantly. As a result, the net cash used by operating activities decreased 20.9% over fiscal year 2010.

Net cash used by capital and related financing activities was substantially more than the prior year, with the majority of that increase ($51.0 million) attributable to outlays for capital assets. The increase in net cash used by investing activities reflects management's decision to move additional cash into investments during the fiscal year.

Overall, cash at the end of the year had increased 20.2% from the prior year, but was down 18.1% for the five year period. The decline from 2007 though should not be a cause for concern, as the University actively manages its investment portfolio by balancing returns and liquidity. As a result, cash and cash equivalents are held to the minimum needed to support operations, with any excess invested with varying maturity dates.

Figure 4

Condensed Statement of Cash Flows – for the years ended June 30 (in thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Cash flows from (to):					
Operating activities	$ (69,708)	$ (88,110)	$(138,590)	$(222,867)	$ (93,444)
Noncapital financing activities	370,417	385,873	375,423	395,669	334,012
Capital and related financing activities	(159,856)	(103,936)	(283,249)	(211,574)	(43,766)
Investing activities	(46,417)	108	(260,201)	(67,662)	(93,576)
Net increase (decrease) in cash	94,436	193,935	(306,617)	(106,434)	103,226
Cash - beginning of year	468,063	274,128	580,745	687,179	583,953
Cash - end of year	$562,499	$468,063	$274,128	$580,745	$687,179

CAPITAL AND DEBT ACTIVITIES

During the fiscal year, a number of capital and debt financing activities occurred. Highlights include the following:

- Several key construction projects were completed including the north central chiller plant, and remodels to the Merrill Engineering Building and Energy & Minerals Research Lab. Ongoing projects include the Red Butte Garden Visitors Center addition; Huntsman Cancer Hospital expansion; Skaggs Pharmacy addition; the new Utah Museum of Natural History; the USTAR building; the David Eccles School of Business complex; and the Thatcher Building for Biological and Biophysical Chemistry. All of the current projects will be completed over the next several years.

- Hospital Revenue Bonds Series 2010 were issued in the amount of $36,120,000. These bonds were issued to acquire the Orthopaedics Building and the Ambassador Building from private entities for use by the Hospital.

- Auxiliary and Campus Facilities Revenue and Refunding Bonds Series 2010B and 2010C were issued in the amounts of $2,570,000 and $42,525,000, respectively. The 2010C bonds were taxable bonds issued under the Build America Bond program. This ARRA funded program provides an interest subsidy to the bond issuer. Both series funded the Honors Housing and University Guest House expansion projects.

- Hospital Revenue Refunding Bonds Series 2011A were issued in the amount of $20,145,000 to refund the 2008 Hospital variable-rate bonds via a direct purchase By JP Morgan Chase Bank into a fixed rate offering.

- Hospital Revenue Bonds Series 2011B were approved, but not issued until July 2011. These bonds were used to acquire/build a 180,000 square foot multi-specialty clinic (including an emergency room) facility in the Daybreak area of south Salt Lake Valley (see Note 20).

OUTLOOK FOR THE COMING FISCAL YEAR

The University's enrollment for Fall 2010 was up 5.2% from the prior fall semester. The increase was across the board including both undergraduate and graduate students, in headcount and full-time equivalent terms. Enrollment at the undergraduate level is dependent on two factors, pool and participation, that are both heavily influenced by factors within the State. The available pool of potential students, age 18 through 29, is in the midst of a flat to modest decline, but that trend is expected to reverse within the next three years as K-8 students move into and through high school in record numbers.

For at least the short term, as the state continues to recover from the recession, participation rates are likely to remain relatively high. Unemployment in Utah was 7.6% at the end of August 2011 (as compared to 9.1% nationally) and has contributed to the increase in enrollment for all state colleges and universities. Enrollment for Fall 2011 continues that trend and is up 2.5% partly in response to continued stresses in the economy.

During the 2011 legislative session, the University's recurring budget for 2011-2012 was reduced by slightly more than 2% compared to 2010-2011, an amount that was made up by an increase in tuition for 2011-2012. The reductions in support for higher education and other state agencies eliminated almost all of the State's structural deficit, which was welcome news to the University in terms of outlook for the coming fiscal year.

UUHC and ARUP continue to be recognized as leaders in their respective fields. The financial position for each remains strong and is expected to remain so. The University also remains very competitive in attracting research dollars, and anticipates continued, albeit slower growth in research funding in future years.

The capital campaign has raised $1.04 billion through the end of August 2011. Support for research ($333 million), facilities ($210 million), and public programs ($173 million) has been outstanding. Despite the stress of a troubled economy, the University benefits from the continued generosity of its donors and supporters.

The University continues to exercise a conservative approach to the issuance of debt. However, with the need for expanded research, patient care, and student housing, comes the need to issue debt to support construction. Within the short-term, 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.

The University has seen the market value of the endowment's underlying assets regain their strength and relative stability. These funds are managed so as to be available to mission-critical programs and initiatives – now and into the future. The University has invested in a portfolio of equity, fixed income and alternative assets whose valuations are impacted by market conditions, sometimes negatively in the short term. However, management believes the portfolio will provide solid financial footing for the University's endowments over the long term.

Overall, the University is in sound financial position – with strong strategic leadership and prudent financial management in place to guide the institution through the additional budgetary challenges which lie ahead.

FINANCIAL STATEMENTS

THE UNIVERSITY OF UTAH | Statement of Net Assets

(in thousands of dollars)

As of June 30

	2011	[For Comparison Only] 2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2 & 4)	$ 439,716	$ 369,362
Short-term investments (Notes 2 & 4)	369,648	404,517
Receivables, net (Note 5)	346,751	317,895
Inventory (Note 1)	40,320	39,149
Other assets (Note 6)	20,477	18,194
Total current assets	1,216,912	1,149,117
Noncurrent Assets		
Restricted cash and cash equivalents (Notes 2 & 4)	122,783	98,701
Investments (Notes 3 & 4)	705,801	568,765
Restricted investments (Notes 3 & 4)	372,704	332,900
Restricted receivables, net (Note 5)	60,561	85,421
Donated property held for sale	1,837	1,809
Other assets (Note 6)	57,527	63,443
Capital assets, net (Note 7)	1,867,630	1,681,491
Total noncurrent assets	3,188,843	2,832,530
Total assets	4,405,755	3,981,647
LIABILITIES		
Current Liabilities		
Accounts payable (Note 5)		
to the State of Utah	15,117	8,009
to Others	92,812	81,066
Accrued payroll	86,404	89,221
Compensated absences and early retirement benefits (Note 1 & 15)	4,588	4,696
Deferred revenue (Note 9)	73,888	66,823
Deposits and other liabilities (Notes 11 & 15)	76,913	70,564
Bonds, notes and contracts payable (Notes 14, 15, & 16)	38,320	33,467
Total current liabilities	388,042	353,846
Noncurrent Liabilities		
Compensated absences and early retirement benefits (Note 1 & 15)	48,038	45,439
Deposits and other liabilities (Notes 11 & 15)	13,848	12,900
Bonds, notes and contracts payable (Notes 14, 15, & 16)	553,927	437,990
Total noncurrent liabilities	615,813	496,329
Total liabilities	1,003,855	850,175
NET ASSETS		
Invested in capital assets, net of related debt	1,352,284	1,289,089
Restricted for		
Nonexpendable		
Instruction	137,791	109,996
Research	37,950	33,453
Public service	58,408	51,634
Academic support	35,904	31,394
Scholarships	127,711	109,260
Other	7,329	6,523
Expendable		
Research	130,945	119,641
Public service	102,212	91,073
Academic support	31,871	30,903
Institutional support	46,544	49,995
Scholarships	45,919	41,074
Loans	33,699	34,177
Debt service	8,102	6,987
Capital additions	123,312	147,833
Other	24,651	21,799
Unrestricted	1,097,268	956,641
Total net assets	$3,401,900	$3,131,472

(in thousands of dollars)

For the Year Ended June 30

	2011	[For Comparison Only] 2010
OPERATING REVENUES AND EXPENSES		
Revenues		
Tuition and fees, net (Note 1)	$ 235,925	$ 201,300
Patient services, net (Notes 1 & 13)	1,178,146	1,092,663
Federal grants and contracts	271,707	247,377
State and local grants and contracts	14,236	15,382
Nongovernmental grants and contracts	97,858	81,083
Sales and services, net (Note 1)	584,999	571,859
Auxiliary enterprises, net (Note 1)	93,612	83,288
Other operating revenues	57,157	79,902
Total operating revenues	2,533,640	2,372,854
Expenses		
Compensation and benefits	1,480,663	1,413,344
Component units	356,599	347,731
Supplies	306,491	292,367
Purchased services	121,844	110,744
Depreciation and amortization	139,935	131,965
Utilities	64,820	61,331
Cost of goods sold	33,837	31,777
Repairs and maintenance	36,866	29,733
Scholarships and fellowships	28,319	25,086
Other operating expenses	177,553	140,166
Total operating expenses	2,746,927	2,584,244
Operating loss	(213,287)	(211,390)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	250,536	246,631
Government grants	57,841	55,903
Gifts	56,229	64,826
Investment income	95,824	62,661
Interest	(23,510)	(19,956)
Other nonoperating revenues (expenses)	(11,854)	4,866
Total nonoperating revenues	425,066	414,931
Income before capital and permanent endowment additions	211,779	203,541
CAPITAL AND PERMANENT ENDOWMENT ADDITIONS		
Capital appropriations	9,037	21,654
Capital grants and gifts	30,425	28,242
Additions to permanent endowments	19,187	13,898
Total capital and permanent endowment additions	58,649	63,794
Increase in net assets	270,428	267,335
NET ASSETS		
Net assets - beginning of year	3,131,472	2,864,137
Net assets - end of year	$3,401,900	$3,131,472

The accompanying notes are an integral part of these financial statements

(in thousands of dollars)

For the Year Ended June 30

	2011	[For Comparison Only] 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees	$ 236,903	$ 201,054
Receipts from patient services	1,148,315	1,073,795
Receipts from grants and contracts	386,440	344,908
Receipts from auxiliary and educational services	680,184	657,739
Collection of loans to students	7,523	5,837
Payments to suppliers	(1,076,694)	(1,023,512)
Payments for compensation and benefits	(1,483,858)	(1,411,393)
Payments for scholarships and fellowships	(28,319)	(25,086)
Loans issued to students	(6,658)	(5,882)
Other	66,456	94,430
Net cash used by operating activities	(69,708)	(88,110)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	250,536	246,631
Government grants	57,841	55,903
Gifts		
Endowment	18,948	13,880
Nonendowment	55,027	64,159
Other	(11,935)	5,300
Net cash provided by noncapital financing activities	370,417	385,873
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	105,019	126,513
Capital appropriations	7,495	13,671
Gifts	53,808	26,938
Purchase of capital assets	(246,259)	(195,218)
Principal paid on capital debt	(56,441)	(55,893)
Interest paid on capital debt	(23,478)	(19,947)
Net cash used by capital and related financing activities	(159,856)	(103,936)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,391,253	1,086,049
Receipt of interest and dividends on investments	24,438	26,341
Purchase of investments	(1,462,108)	(1,112,282)
Net cash provided (used) by investing activities	(46,417)	108
Net increase in cash	94,436	193,935
Cash - beginning of year	468,063	274,128
Cash - ending of year	$ 562,499	$ 468,063

Continued on next page...

The accompanying notes are an integral part of these financial statements

(in thousands of dollars)

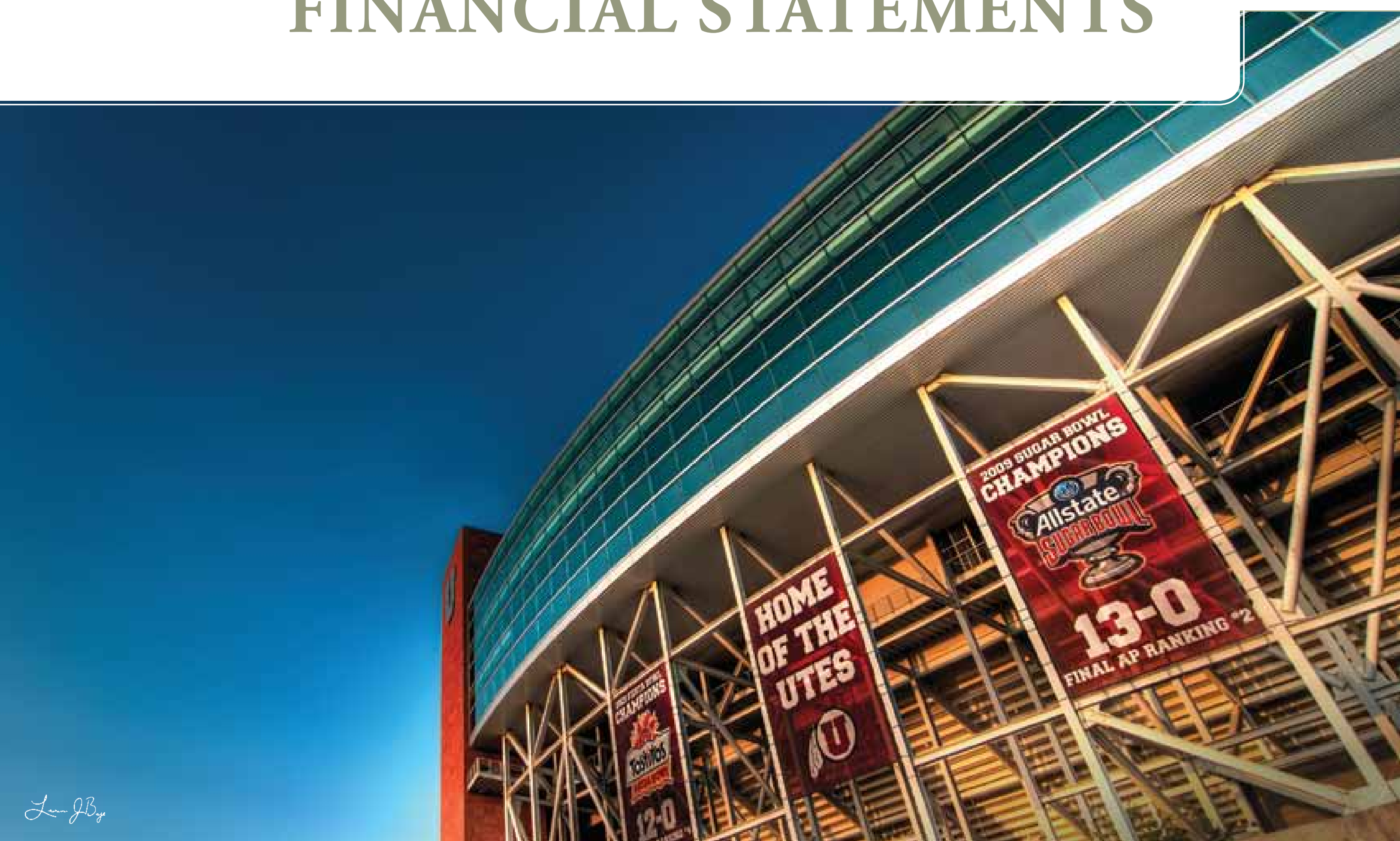
For the Year Ended June 30

	2011	2010 [For Comparison Only]
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$(213,287)	$(211,390)
Adjustments		
Depreciation and amortization expense	139,935	131,965
Change in assets and liabilities		
Receivables, net	(31,706)	(5,135)
Inventory	(1,172)	870
Donated property held for sale		
Other assets	3,633	4,513
Accounts payable	18,854	(15,047)
Accrued payroll	(5,686)	(457)
Compensated absences and early retirement benefits	2,491	2,408
Deferred revenue	7,065	(168)
Deposits and other liabilities	10,165	4,331
Net cash used by operating activities	$ (69,708)	$ (88,110)

	2011	2010
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital leases	$ 35,859	$20,183
Donated property and equipment	6,012	11,195
Completed construction projects transferred from State of Utah (Note 1)	1,542	7,982
Annuity and life income	156	722
Increase in fair value of investments	71,386	37,260
Total noncash investing, capital, and financing activities	$114,955	$77,342

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements report the financial activity of the University of Utah (University), including the University of Utah Hospitals and Clinics (UUHC). The University is a component unit of the State of Utah (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 (UURF) and ARUP Laboratories, 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 October 5, 2011, has been issued under separate cover.

- ARUP is a not-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 August 31, 2011, has been issued under separate cover.

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

B. Basis of Accounting

All statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Operating activities include all revenues and expenses, derived on an exchange basis, used to support the instructional, research and public service efforts, and other University priorities. Significant recurring sources of the University's revenues are considered nonoperating as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and required by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. 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, Pell grants and certain government grants, 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.

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 20 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 the partnerships' audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions.

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, 2011 and 2010:

Revenue Allowance	2011	2010
Tuition and fees	$32,854,180	$27,164,394
Patient services	67,510,220	67,898,470
Sales and services	6,629	15,689
Auxiliary enterprises	1,149,282	959,803

E. Inventories

The University Campus Store's 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, 2011, were approximately $10,848,000.

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, 2011, was approximately $49,922,000.

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, 77 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 0.943% 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, 2011, these expenditures were approximately $1,530,000.

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, 2010 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, 2011, cash and cash equivalents and short-term investments consisted of:

Cash and Cash Equivalents

Cash	$ (6,953,937)
Money market funds	164,592,918
Time certificates of deposit	58,009,099
Repurchase agreements	25,000,000
Commercial paper	3,159,766
Utah Public Treasurer's Investment Fund	288,334,277
U.S. Agencies	30,357,294
Total (fair value)	$562,499,417

Short-term Investments

Commercial paper	$ 7,991,679
U.S. Treasuries	169,454,744
U.S. Agencies	169,762,229
Corporate notes	22,438,957
Total (fair value)	$369,647,609

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, equity ownership in newly organized companies acquiring these patents along with the right to receive future royalties based on product sales. Minority interests in privately held companies are generally recorded by UURF at a nominal value. Companies for which UURF's ownership exceeds a certain percentage or over which UURF exercises some measure of control are evaluated further and may be recorded using either the cost method, the equity method, or consolidation depending on the investment's materiality to the financial statements. Equity ownership in publicly traded companies is measured at fair value as of June 30, 2011.

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 practice at June 30, 2011, is 4% of the twelve quarter moving average of the market value of the endowment pool. The spending practice is reviewed periodically and any necessary changes are made. In general, nearly all of the University's endowment is subject to spending restrictions imposed by donors.

The amount of net appreciation on investments of donor-restricted endowments available for authorization for expenditure at June 30, 2011, was approximately $89,016,000. The net appreciation is a component of restricted expendable net assets.

At June 30, 2011, the investment portfolio composition was as follows:

Investments	
Time certificates of deposit	$ 2,915,197
U.S. Treasuries	270,089,861
U.S. Agencies	233,768,912
Municipal bonds	3,625,281
Corporate notes	40,577,962
Mutual funds	517,263,246
Common and preferred stocks	10,264,662
Total (fair value)	$1,078,505,121

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, 2011, the carrying amounts of the University's deposits and bank balances were $55,617,712 and $68,986,733, respectively. The Federal Deposit Insurance Corporation (FDIC) provides deposit insurance coverage up to $250,000 for all interest bearing accounts for each depositor at each banking institution. For the period December 31, 2010 through December 31, 2012, all noninterest bearing accounts are fully insured, regardless of the account balance and the ownership capacity of the funds. As a result, the bank balances of the University were insured for $6,501,920, by the FDIC. The bank balances in interest bearing accounts in excess of $750,000 were uninsured and uncollateralized, leaving $62,484,813 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; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae) and Student Loan Marketing Association (Sallie Mae) 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 (SEC) 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; investments in corporate stock listed on a major exchange (direct ownership); 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 Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

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 days - 13 months 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, 2011, the University had debt investments with maturities as shown in *Figure 1* below.

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, 2011, the University had debt investments with quality ratings as shown on page 27, in *Figure 2* on page 27.

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 or collateral securities 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, 2011, the University's custodial bank was both the custodian and the investment counterparty for $824,966,030 of U.S. Treasury and Agency securities purchased by the University and $48,467,010 of U.S. Treasury and Agency 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.

Figure 1.

		Investment Maturities (in years)			
Debt Investment	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
Money market mutual funds	$ 159,374,575	$159,374,575			
Repurchase agreements	25,000,000	25,000,000			
Commercial paper	11,151,445	11,151,445			
Utah Public Treasurer's Investment Fund	288,334,277	288,334,277			
Time certificates of deposit	2,915,197		$ 2,915,197		
U.S. Treasuries	439,544,605	169,454,744	270,089,861		
U.S. Agencies	433,888,435	200,119,523	225,504,852	$ 6,925,407	$1,338,653
Corporate notes	63,016,919	22,438,957	40,577,962		
Municipal bonds	3,625,281			519,500	3,105,781
Mutual bond funds	155,450,776		48,110,600	107,340,176	
Totals	$1,582,301,510	$875,873,521	$587,198,472	$114,785,083	$4,444,434

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 several investment managers of varying investment strategies. Diversification is an effective means of maximizing return while mitigating risk. At June 30, 2011, the University held more than 5% of its total investments in the Federal Home Loan Bank and the Federal Farm Credit Bank. These investments represent 20.4% and 5.7%, respectively, of the University's total investments.

5. RECEIVABLES AND ACCOUNTS PAYABLE

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.

On March 2, 2010, the IRS issued IR-2010-25, which authorized the refund of 100% of the FICA taxes paid by colleges and universities with respect to their medical residents for tax periods ending before April 1, 2005. As a result, UUHC recorded a receivable in the amount of $20,703,840.

The following schedule presents receivables at June 30, 2011, including approximately $23,762,000 and $36,799,000 of noncurrent loans and pledges receivable, respectively:

Accounts	$469,303,476
Grants and contracts	44,523,653
Loans	31,064,959
Pledges	38,939,162
IRS refund	20,703,840
Notes	211,368
Interest	3,851,263
	608,597,721
Less allowances for doubtful accounts	(201,285,806)
Receivables, net	$407,311,915

Figure 2.

Debt Investment	Fair Value	Quality Rating AAA/A-1	AA	A	Unrated	No Risk
Money market mutual funds	$ 159,374,575	$159,109,604			$ 264,971	
Repurchase agreements – underlying:						
U.S. Agencies	25,000,000	25,000,000				
Commercial paper	11,151,445	11,151,445				
Utah Public Treasurer's Investment Fund	288,334,277				288,334,277	
Time certificates of deposit	2,915,197			$ 2,915,197		
U.S. Treasuries	439,544,605					$439,544,605
U.S. Agencies	433,888,435	433,888,435				
Corporate notes	63,016,919		$23,932,482	39,084,437		
Municipal bonds	3,625,281	3,105,781	519,500			
Mutual bond funds	155,450,776				155,450,776	
Totals	$1,582,301,510	$632,255,265	$24,451,982	$41,999,634	$444,050,024	$439,544,605

The following schedule presents the major components of accounts payable at June 30, 2011:

Vendors	$ 62,998,577
Interest	7,062,769
Payable to State	15,117,472
Other	22,749,867
Total accounts payable	$107,928,685

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 to the State of Utah for the Huntsman Cancer Hospital are amortized using the straight-line method. The June 30, 2011 balance of prepaid rent to the State was $51,494,901.

7. CAPITAL ASSETS

Buildings; infrastructure and improvements, which includes roads, curbs and gutters, streets and sidewalks, and lighting systems; land; equipment; library materials; and intangible assets (primarily software) 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. Purchased software is capitalized when acquisition costs are $100,000 or greater and developed software is capitalized when development costs are $1,000,000 or greater. 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, from five to twenty years on equipment and from five to ten years on software. 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.

Figure 3.	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	$1,600,430,892	$122,673,485	$ 837,735	$1,722,266,642
Infrastructure and improvements	187,978,442	41,991,129	1,759,393	228,210,178
Land	19,619,796	759,724		20,379,520
Equipment (including intangibles)	679,085,890	81,769,716	24,172,600	736,683,006
Library materials	157,382,829	3,190,528	787,992	159,785,365
Art and special collections	53,873,709	4,775,878	131,000	58,518,587
Construction in progress	333,598,792	189,174,092	112,731,722	410,041,162
Total cost	3,031,970,350	444,334,552	140,420,442	3,335,884,460
Less accumulated depreciation				
Buildings	673,808,916	56,070,224	804,106	729,075,034
Infrastructure and improvements	114,222,242	11,854,682		126,076,924
Equipment	456,981,540	66,492,431	20,602,514	502,871,457
Library materials	105,466,388	4,764,612		110,231,000
Total accumulated depreciation	1,350,479,086	139,181,949	21,406,620	1,468,254,415
Capital assets, net	$1,681,491,264	$305,152,603	$119,013,822	$1,867,630,045

At June 30, 2011, the University had outstanding commitments for the construction and remodeling of University buildings of approximately $44,213,000.

Capital assets at June 30, 2011, are shown in *Figure 3* on the previous page.

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 Systems (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 11.83% 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 16.32% (with an additional 1.50% to a 401(k) salary deferral program) and 32.75%, respectively, of plan members' annual salaries. The contribution requirements of the Systems are authorized by statute and specified by the Board and the contribution rates are actuarially determined.

TIAA-CREF and Fidelity 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

Figure 4.	2011	2010	2009
State and School Contributory Retirement System	$ 1,429,083	$ 1,397,844	$ 1,527,460
State and School Noncontributory Retirement System	27,572,366	25,445,292	26,010,222
Public Safety Noncontributory Retirement System	407,628	412,295	403,770
TIAA-CREF	72,806,604	68,358,983	66,282,674
Fidelity	21,850,361	22,242,753	18,564,335
Vanguard		291,345	2,706,528
Pension plan	9,980,639	9,395,166	8,758,713
Profit sharing plan	8,943,919	8,936,365	8,079,552
Total contributions	$142,990,600	$136,480,043	$132,333,254

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, 2011, 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 fully vest after six years. The University's contribution for these health clinic employees was 6.00% of the employees' annual salaries.

In addition, employees of the University may also contribute to a 403(b) traditional or Roth IRA plan. For employees enrolled in the Hospital Retirement Plan and contribute to a 403(b) IRA plan, the University matches up to 3% of an employee's contribution. Total University employee contributions to the 403(b) plans for the fiscal year 2011 was approximately $34,069,000.

The ARUP defined contribution pension and profit sharing plans provide retirement benefits for all employees. Employees may choose 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. There are no minimum service and vesting requirements relating to pension contributions.

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, 2011, 2010, and 2009, 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 University, where it is recorded when received. The fair value of funds held in trust at June 30, 2011, was $96,369,286.

In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of $12,393,593 as of June 30, 2011, based on a predetermined formula. The fair value of this stock as of June 30, 2011 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, 2011, 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, 2011, 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.

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,

Figure 5.

	2011	2010
Estimated claims liability - beginning of year	$ 52,990,573	$ 50,254,957
Current year claims and changes in estimates	195,874,439	199,360,112
Claim payments, including related legal and administrative expenses	(198,902,188)	(196,624,496)
Estimated claims liability - end of year	$ 49,962,824	$ 52,990,573

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, 2011, were approximately $29,106,000.

14. LEASES

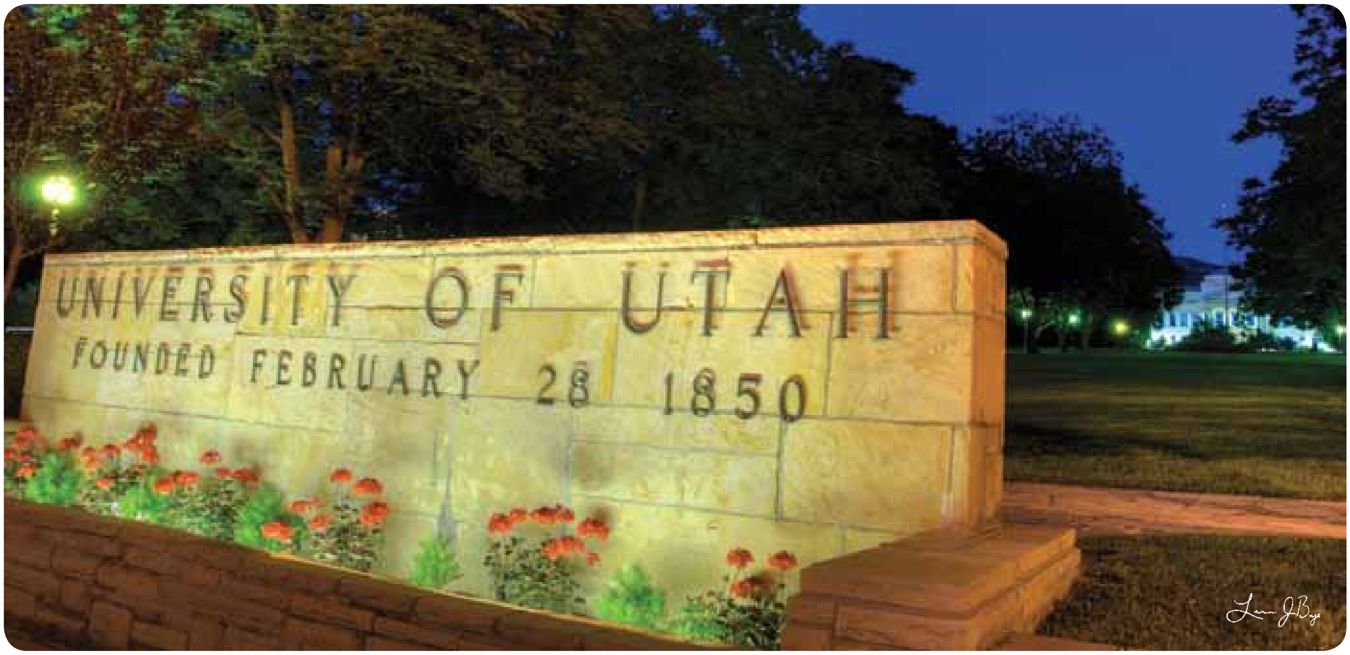
A. Revenue

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, 2011, the historical cost of land and buildings held for lease and the related accumulated depreciation were $75,299,821 and $15,112,075, respectively.

Figure 6.

Fiscal Year	Operating	Capital
2012	$ 24,395,991	$20,775,545
2013	25,151,984	17,669,946
2014	23,955,285	13,424,935
2015	24,415,894	10,888,979
2016	19,845,060	6,892,954
2017 – 2021	77,255,738	7,303,828
2022 – 2026	67,805,239	1,297,590
2027 – 2031	56,086,494	
2032 – 2036	1,175,000	
2037 – 2041	1,175,000	
2042 – 2046	1,175,000	
2047 – 2049	685,417	
Total future minimum lease payments	$323,122,102	78,253,777
Amount representing interest		(5,543,838)
Present value of future minimum lease payments		$72,709,939



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 $115,637,388 for buildings and equipment, respectively. Accumulated depreciation for these buildings and equipment amounts to $1,113,000 and $54,707,808, 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 $20,295,286 for the University and $6,901,711 for component units for the year ended June 30, 2011. Total operating lease commitments for the University include approximately $8,971,766 of commitments to component units and $148,574,000 to the State for Phase IIB of the Huntsman Cancer Hospital.

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 renewal options ranging from ten to twenty years 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 related to these buildings for the year ended June 30, 2011 were $5,962,705.

The University entered into a lease agreement on April 23, 2010, for the land and facilities related to a medical clinic in South Jordan, which is currently under construction. Included in the lease terms is an option to purchase the land and facility. Subsequent to the fiscal year end this option was exercised. As discussed in Note 21, the proceeds from the Series 2011B Bonds were used to fund this purchase.

Future minimum lease commitments for operating and capital leases as of June 30, 2011 are shown in *Figure 6* on the previous page.

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.

Figure 7.

Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2011(a)
Auxiliary and Campus Facilities						
Series 1987A - Refunding	3/1/87	2014	3.750% - 6.750%	$ 11,140,000	$ 185,000	$ 300,000
Series 1997A - Revenue	7/30/97	2027	Variable	52,590,000	1,420,000	4,000,000
Series 1998A - Revenue Refunding	7/1/98	2029	4.100% - 5.250%	120,240,000	26,777	31,124,682
Series 2005A - Refunding	8/2/05	2021	3.000% - 5.000%	42,955,000	3,243,549	34,191,950
Series 2010A - Revenue Refunding	5/11/10	2024	2.000% - 5.000%	23,515,000	503,566	25,634,467
Series 2010B - Revenue	12/28/10	2015	5.000%	2,570,000	65,032	2,826,146
Series 2010C - Revenue	12/28/10	2036	1.750% - 5.890%	42,525,000	-	42,525,000
Hospital						
Series 2005A - Revenue Refunding	7/14/05	2018	4.500% - 5.000%	30,480,000	3,637,842	25,488,891
Series 2006A - Revenue Refunding	10/26/06	2032	4.000% - 5.250%	77,145,000	127,276	81,781,588
Series 2009A - Revenue	12/17/09	2017	4.000% - 5.000%	9,135,000	186,400	9,702,436
Series 2009B - Taxable Revenue	12/17/09	2031	4.697% - 5.247%	41,785,000	-	41,785,000
Series 2010 - Revenue	8/2/10	2026	3.000% - 5.000%	36,120,000	686,364	39,356,538
Series 2011A - Revenue Refunding	5/24/11	2026	3.600%	20,145,000	565,000	20,145,000
Research Facilities						
Series 2004A - Revenue	6/30/04	2019	3.000% - 4.700%	9,685,000	627,599	5,833,755
Series 2005A - Revenue	2/15/05	2025	3.000% - 5.000%	5,515,000	240,522	4,395,621
Series 2005B - Refunding	6/07/05	2020	3.000% - 5.000%	20,130,000	1,006,622	10,844,967
Series 2008A - Revenue Refunding	10/7/08	2022	3.250% - 5.000%	9,360,000	592,854	7,929,773
Series 2009A - Revenue	8/26/09	2019	4.000% - 5.000%	19,080,000	1,813,323	16,708,888
Series 2009B - Taxable Revenue	8/26/09	2029	5.670% - 6.279%	27,730,000	-	27,730,000
Certificates of Participation						
Series 2007	4/3/07	2027	4.000% - 5.500%	42,450,000	1,632,004	38,524,717
Total					$16,559,730	$470,829,419

(a) Includes unamortized premiums and losses on refunding.

Figure 8.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$364,817,904	$105,019,053	$ 37,532,255	$432,304,702	$ 14,927,726
Certificates of participation	40,077,486		1,552,769	38,524,717	1,632,004
Capital leases payable	52,642,858	35,859,047	15,791,966	72,709,939	19,037,600
Notes and contracts payable	13,918,197	36,558,498	1,768,769	48,707,926	2,722,398
Total long-term debt	471,456,445	177,436,598	56,645,759	592,247,284	38,319,728
Compensated absences	50,135,269	34,918,225	32,427,282	52,626,212	4,587,663
Deposits & other liabilities	83,464,773	78,755,725	71,459,787	90,760,711	76,913,264
Total long-term liabilities	$605,056,487	$291,110,548	$160,532,828	$735,634,207	$119,820,655

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, 2011, is $4,000,000.

The Series 1997A Auxiliary and Campus Facilities Revenue Bonds currently bear interest at a weekly rate in accordance with the bond provisions. When a weekly rate is in effect, the Series 1997A Bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's tender agent. The University's remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. If any Series 1997A Bonds cannot be remarketed to new holders, the tender agent is required to draw on an irrevocable standby bond purchase agreement to pay the purchase price of the bonds delivered to it. The standby bond purchase agreement is with JPMorgan Chase Bank and is valid through July 30, 2013. Through June 30, 2011, no funds have been drawn against the agreement. The interest requirement for the Series 1997A Bonds is calculated using an annualized interest rate of 0.09%, which is the rate in effect at June 30, 2011.

During fiscal year 2011, the University issued three revenue bond series and one revenue refunding bond series. One revenue series was the Hospital Revenue Bonds Series 2010 in the amount of $36,120,000 issued on August 2, 2010 for the purpose of satisfying a loan to construct the Orthopedic Center and to acquire the Ambassador

Office Building. The other two revenue series were the Auxiliary and Campus Facilities Revenue Bond Series 2010B and Taxable Auxiliary and Campus Facilities Revenue Bonds Series 2010C (Issuer Subsidy - Build America Bonds) in the amounts of $2,570,000 and $42,525,000, respectively issued on December 28, 2010 for the purpose of financing a portion of the costs of acquiring, constructing, furnishing, and equipping additions to the University's student housing and an expansion of the University's Guest House. The fourth series was the Hospital Revenue Refunding Bonds Series 2011A in the amount of $20,145,000 issued on May 24, 2011 for the purpose of refunding the variable rate Hospital Revenue Refunding Bonds Series 2008.

The schedule on the previous page, *Figure 7*, lists the outstanding bonds payable and certificates of participation of the University at June 30, 2011.

UURF has purchased three buildings with two mortgages that are guaranteed by the University. The remaining amounts of the mortgages are $4,808,762 at 8.87% interest and $2,399,750 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 $2,442,524 at interest rates ranging from 3.00% to 4.70%.

The schedule on the previous page, *Figure 8*, summarizes the changes in long-term liabilities for the year ended June 30, 2011.

Figure 9.

Function	Compensation and Benefits	Supplies and Services	Utilities	Scholarships & Fellowships	Depreciation & Amortization	Component Units	Total
Instruction	$ 264,282	$ 35,106	$ 1,999	$37,788			$ 339,175
Research	184,663	103,233	1,244	3,099			292,239
Public service	410,300	75,023	22,072	1,036	$ 753		509,184
Academic support	60,605	22,363	591	137			83,696
Student services	16,328	6,670	226	408			23,632
Institutional support	61,262	(4,378)	5,297	353			62,534
Plant maintenance	21,742	23,164	17,387	2			62,295
Student aid	2,719	42,861	16	(17,271)			28,325
Other	32,030	(53,168)	5,374	2,767	121,711		108,714
Hospital	424,160	425,717	10,614				860,491
Component Units	2,572				17,471	$356,599	376,642
Total	$1,480,663	$676,591	$64,820	$28,319	$139,935	$356,599	$2,746,927

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

	Payments	
Fiscal Year	Principal	Interest
2012	$ 38,319,728	$ 26,684,322
2013	40,125,678	25,589,721
2014	36,822,941	24,277,959
2015	34,109,238	22,934,147
2016	31,114,531	21,676,186
2017 – 2021	139,090,088	88,959,509
2022 – 2026	134,627,893	55,218,236
2027 – 2031	117,481,632	19,523,455
2032 – 2036	20,555,555	2,714,566
Total	$592,247,284	$287,578,101

Interest related to bonds systems with pledged revenues amounts to $242,892,517 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, 2011, is $28,870,000.

In addition, the University issued on May 24, 2011, Hospital Revenue Refunding Bonds Series 2011A in the amount of $20,145,000 for the purpose of fully refunding the Hospital Revenue Refunding Bonds Series 2008. This refunding reduced the debt retirement period by five years, but resulted in an addition to the University's aggregate debt service payments of $6,011,125 and a present value economic loss of approximately $10,682,000.

17. FUNCTIONAL CLASSIFICATION OF EXPENSES

Figure 9, presents, in thousands of dollars, operating expenses by functional classification for the year ended June 30, 2011.

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

Building. These auxiliaries provide on-campus services for the benefit of students, faculty, staff and visitors. 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 10 presents the net revenue pledged to the applicable bond system and the principal paid and interest expense for the year ended June 30, 2011.

19. JOINT VENTURES

The Utah Education Network (UEN) is a publicly funded consortium administered by the University supporting educational technology needs for Utah's public and higher education institutions, public libraries, and state agencies. UEN provides internet access for all Utah public middle schools, high schools, and higher education institutions. UEN also operates a fully interactive distance learning network interconnecting public schools and higher education institutions statewide. State appropriation support of UEN amounted to $18,490,300 for the year ended June 30, 2011. UEN is not separately audited but is included in the audited financial statements of KUEN, a public broadcasting television station operated by the University. Copies of those statements can be obtained from KUEN's administrative offices.

20. 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, 2011, the University had committed, but not paid, a total of $20,138,438 in funding for these alternative investments.

21. SUBSEQUENT EVENTS

On July 28, 2011, the University issued $66,480,000 of Hospital Revenue Bonds Series 2011B. Principal on the bonds is due annually commencing August 1, 2015 through August 1, 2031. Bond interest is due semiannually commencing February 1, 2012 at rates ranging from 3.35% to 5.00%. Proceeds from these bonds were used to acquire, construct, furnish and equip a multi-specialty out-patient care center in the southern part of the Salt Lake Valley.

Figure 10.

	Bond Systems		
	Auxiliary & Campus Facilities	**Hospital**	**Research Facilities**
Revenue			
Operating revenue	$75,604,512	$928,858,131	$85,192,252
Nonoperating revenue	8,155,048	7,387,286	
Total revenue	83,759,560	936,245,417	85,192,252
Expenses			
Operating expenses	62,734,115	860,523,289	54,341,865
Total expenses	62,734,115	860,523,289	54,341,865
Net pledged revenue	$21,025,445	$ 75,722,128	$30,850,387
Principal paid and interest expense	$11,892,654	$ 12,628,037	$ 9,451,771

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