2012 Annual Financial Report

The University of Utah

A Component Unit of the State of Utah

THE UNIVERSITY OF UTAH

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Message from the President David W. Pershing

I am pleased to present this financial report for the University of Utah's 2012 fiscal year. I invite you to review it in detail, as it provides tangible measures of the University's continuing strength and vitality. It also provides an opportunity for me to sincerely thank those who make it possible—world class faculty, exceptional students, dedicated staff, and a diverse community of alumni, civic, and business leaders.

The University is in strong financial condition and is well poised for continued success. We are deeply indebted to the Governor, legislature, and community leaders throughout the state for their support. We recognize and honor the Utah State Board of Regents and the University of Utah Board of Trustees for their service and leadership. We gratefully acknowledge literally thousands of donors who selflessly give back to the community and state through their support of the University of Utah.

We are excited about the future. We will continue with energy, enthusiasm, and commitment to build on the University's well-recognized strengths:

- Cutting edge research that drives progress and enriches life. Our faculty continues to produce life changing discoveries, many resulting from our culture of interdisciplinary research. Research funds awarded in fiscal year 2012 totaled $393 million. Notable recent developments include advances in personalized medicine (Neuroscience, Nanotechnology, Visualization, and Biomedical Technology) and advances in energy technology (both fossil energy and alternative energy).
- Education and public service that enriches and adds value to our community. Colleges such as Humanities, Social and Behavioral Sciences, and Fine Arts stimulate and cultivate intellectual versatility and depth. The Natural History Museum of Utah reaches hundreds of thousands, through exhibits and programs at its breathtaking new facility, and also through traveling exhibits, classroom, and field programs. Through a variety of outreach programs, the Museum of Fine Arts serves both the general public and thousands of children through high school age. Likewise, our theaters, gardens, and concerts enhance the quality of life. Examples are too numerous to cite—ranging from direct community service provided through the Bennion Center and University Neighborhood Partners, to a staggering variety of workshops, lectures, podcasts and programs the University makes available to students, educators, and the public.
- Superlative health care and health care education. University of Utah Health Care is the Intermountain West's only academic health care system, combining excellence in patient care, the

latest in medical research, and exceptional teaching. We provide leading-edge medicine in a caring and personal setting. For the third consecutive year, University Health Care has been ranked in the top 10 in a prestigious national assessment of quality and accountability in academic medical centers. University Hospitals and Clinics and its academic partners at the School of Medicine and Colleges of Nursing, Pharmacy, and Health are internationally regarded. The Hospital and its specialty clinics provide an extensive range of services to over 330,000 patients annually. It was recently honored by U.S. News & World Report for 10 high-performing specialties and received three awards from the Department of Health and Human Services for its success in organ transplant.

- Innovation and commercialization that provide jobs and generate economic growth. Faculty and researchers have started more than 220 companies since 1970. They disclose roughly 200 new inventions every year, and they secure dozens of U.S. patents annually. This activity has helped make Utah one of the leading states in the nation at technological innovation and economic development. The University's Research Park is home to 56 companies with approximately 6,200 non-university employees and annual payrolls totaling approximately $400 million.

These strengths not only create value for the state, they produce a rich learning environment for our students. Our primary focus is providing outstanding, affordable, and accessible education. Our first priority is our students, and we are reinvigorating efforts to ensure their success. Initiatives currently underway include:

- Instituting a holistic approach to student recruiting and admissions. Admission decisions will be based on a review of each prospective student's overall situation, not just test scores and grades. College coursework taken in high school and work/life experience will also factor into admission.
- New on-campus housing and learning communities.
- Devoting new resources to greatly enhance student counseling and support.
- Expanding high demand majors, such as Business, and focusing efforts to help students graduate and successfully gain employment in their chosen fields.
- Ensuring that every undergraduate student has at least one highly engaging 'signature experience' that extends well beyond the classroom. As one student recently stated, a University of Utah education "is not only about getting a degree, but also about making connections with people." Opportunities include undergraduate research involvement, service and learning opportunities abroad, community service, and new internships locally and globally.

We are proud to serve Utah. To each citizen of this great state, I invite you to consider yourself a shareholder of the University of Utah. Our goal is to enrich your life—intellectually, culturally, and economically. To prospective students and their parents, please visit and consider the tremendous opportunities here. To all others, we welcome you at any time and aim to make your next experience with us positive and productive.

Auston G. Johnson, CPA
UTAH STATE AUDITOR

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Independent State Auditor's Report

To the Board of Trustees, Audit Committee,
and
David W. Pershing, 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, 2012, 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 28% ($1,370,359,000) of total assets and 43% ($1,441,344,000) 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 2011 financial statements and, in our report dated October 14, 2011, 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, 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 of Utah as of June 30, 2012, and the changes in its financial position and its cash flows 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 30, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Auston G. Johnson

Auston G. Johnson, CPA
Utah State Auditor
October 30, 2012

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, 2012, 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 (UUHC) – 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 72 major subjects at the undergraduate level and more than 90 major fields of study at the graduate level, including law and medicine, to over 32,000 students, preparing students to live and compete in the global workplace. With more than 23,000 employees, it is one of the state's largest employers.

The University health care system was ranked among the top hospitals and health care systems in the country for the 18th time according to the U.S. News and World Report and first among the region's health care providers. For the third year in a row the Hospital ranked in the top 10 of all academic medical centers in the country, according to the University Health System Consortium's annual quality and accountability study.

The University Honors College, founded in 1962, celebrated 50 years of excellence in undergraduate education. Through the upcoming Donna Garff Marriott Residential Scholars Community (honors housing), honors students will continue to enjoy an enriched academic environment for talented and highly motivated students.

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.

The results of operations reflect the University's focus on maintaining its national standards academically, in research, and in health care in a competitive environment. At the same time, the University is addressing declining base state appropriations and rising health care, regulatory and facility costs with productivity gains to help preserve access to affordable higher education and health care services.

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 11.7% from the prior year and 42.3% 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 13% in fiscal year 2012 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 funding challenges. This surplus has been reinvested within the University to add to the margin of educational excellence, upgrade the University's facilities, and provide a prudent reserve for contingencies.

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 on page 10 in *Figure 2*.

Revenues from tuition and fees increased 11.7% from the prior year – and 63.8% over the five year period. This consistently upward trend is reflective of the increases in enrollment and the students' increased contribution toward the University's budget – as state appropriations have remained essentially flat (increasing 1.3% from the prior year but decreasing 13.9% 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 7.6% from the prior year despite the economy and the changing health care environment; and have increased 35.2% 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 3.5% from the prior year, and also maintained a consistent upward trend for the five year period – increasing 28.1%. 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 6.6% and 35.2%, from the prior year and for the five year period, respectively.

Operating expenses, have increased as well; 7.7% over the prior year and 30% for the five year period. With compensation and benefits representing 53.4 % 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. More detail on operating expenses appears on page 11 in *Figure 3*.

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)	**2012**	**2011**	**2010**	**2009**	**2008**
Current assets	$1,439,485	$1,216,912	$1,149,117	$1,218,554	$1,279,049
Noncurrent assets					
Capital assets, net	2,288,364	1,867,630	1,681,491	1,578,878	1,348,040
Other noncurrent asset	1,192,431	1,321,213	1,151,039	834,568	830,188
Total Assets	4,920,280	4,405,755	3,981,647	3,632,000	3,457,277
Current liabilities	369,109	388,042	353,846	361,738	347,254
Noncurrent liabilities	765,192	615,813	496,329	406,125	422,982
Total Liabilities	1,134,301	1,003,855	850,175	767,863	770,236
Invested in capital assets, net of related debt	1,569,553	1,352,284	1,289,089	1,202,270	993,443
Restricted, nonexpendable	411,666	405,093	342,260	308,513	351,619
Restricted, expendable	586,683	547,255	543,482	512,701	528,493
Unrestricted	1,218,077	1,097,268	956,641	840,653	813,486
Total Net Assets	$3,785,979	$3,401,900	$3,131,472	$2,864,137	$2,687,041

Figure 2

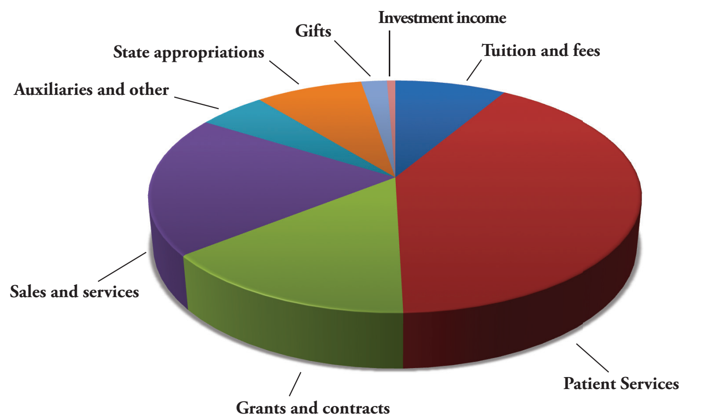
Condensed Statement of Revenues, Expenses, and Changes in Net Assets - for the years ended June 30 (in thousands)[1]	2012	2011	2010	2009	2008
Operating revenues					
Tuition and fees, net	$ 263,631	$ 235,925	$ 201,300	$ 169,351	$ 160,915
Patient services, net	1,267,171	1,178,146	1,092,663	1,067,747	937,047
Grants and contracts	401,921	383,801	343,842	307,574	280,815
Sales and services	605,365	584,999	571,859	526,323	472,607
Auxiliary and other	161,858	150,769	163,190	129,933	145,724
Total operating revenues	2,699,946	2,533,640	2,372,854	2,200,928	1,997,108
Operating expenses	2,959,630	2,746,927	2,584,244	2,453,010	2,277,040
Operating loss	(259,684)	(213,287)	(211,390)	(252,082)	(279,932)
Nonoperating revenues					
State appropriations	253,909	250,536	246,631	266,761	294,907
Gifts	61,138	56,229	64,826	65,037	74,449
Investment income (loss)	19,877	95,824	62,661	(45,153)	22,412
Other net nonoperating revenue (expense)	17,312	22,477	40,813	2,016	(15,284)
Total nonoperating revenues	352,236	425,066	414,931	288,661	376,484
Income before capital and permanent endowment additions	92,552	211,779	203,541	36,579	96,552
Capital and permanent endowment additions	291,527	58,649	63,794	140,517	73,004
Increase in net assets	384,079	270,428	267,335	177,096	169,556
Net assets - beginning of year	3,401,900	3,131,472	2,864,137	2,687,041	2,517,485
Net assets - end of year	$3,785,979	$3,401,900	$3,131,472	$2,864,137	$2,687,041

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

Figure 3

Total Expenses	2012	2011	2010	2009	2008
Operating expenses					
Compensation and benefits	$1,581,667	$1,480,663	$1,413,344	$1,339,703	$1,226,252
Component units	356,355	356,599	347,731	328,196	287,603
Supplies	328,922	306,491	292,367	277,509	252,785
Depreciation and amortization	171,867	139,935	131,965	118,475	110,618
Other	520,819	463,239	398,837	389,127	399,782
Total operating expenses	2,959,630	2,746,927	2,584,244	2,453,010	2,277,040
Nonoperating expenses					
Interest and other	36,180	35,364	35,794	32,481	33,765
Total expenses	$2,995,810	$2,782,291	$2,620,038	$2,485,491	$2,310,805

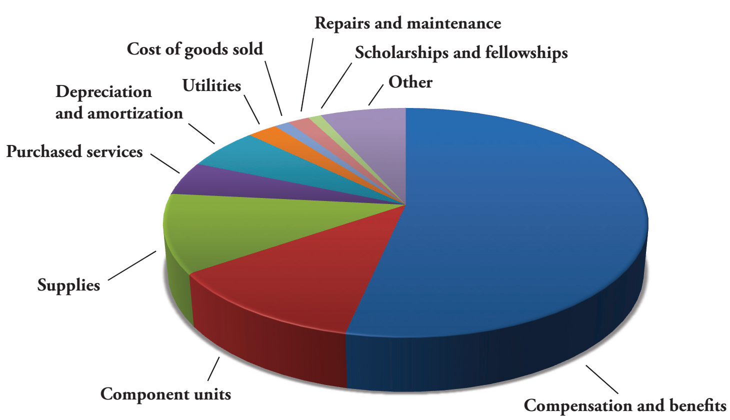
The graph below shows the various types of funding available to support the operations of the University:



Sources of Revenue in Support of Operations
Fiscal Year Ending June 30, 2012

Tuition and fees	263,631
Patient Services	1,267,171
Grants and contracts	401,921
Sales and services	605,365
Auxiliaries and other	161,858
State appropriations	253,909
Gifts	61,138
Investment income	19,877

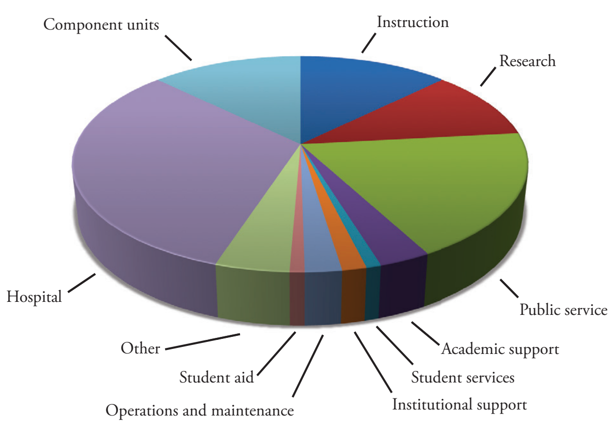
A graphical presentation of the University's operating expenses appears below:



Operating Expenses
For the Year Ended June 30, 2012

Compensation and benefits	1,581,667
Component units	356,355
Supplies	328,922
Purchased services	140,352
Depreciation and amortization	171,867
Utilities	69,328
Cost of goods sold	34,881
Repairs and maintenance	49,455
Scholarships and fellowships	30,096
Other	196,707

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, 2012

Instruction	$375,622
Research	313,677
Public service	557,402
Academic support	91,934
Student services	26,266
Institutional support	43,079
Operations and maintenance	64,663
Student aid	26,019
Other	131,039
Hospital	952,285
Component units	377,644

STATEMENT OF CASH FLOWS

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

Cash flows from operations primarily consists of tuition and fees, patient services, grants and contracts, and auxiliaries. Significant sources of cash provided by noncapital financing activities, as defined by GASB, include state appropriations, federal Pell grants and private gifts funds.

Overall, cash at the end of the year decreased 24.8% from the prior year, and was down 27.2% for the five year period. The declines are not 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.

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 University Science Technology and Research (USTAR) building; the ambulatory care wing of the University Hospital; an expansion of the Huntsman Cancer Hospital; and the Museum of Natural History. Ongoing projects include the Donna Garff Marriott Residential Scholars Community; Skaggs Pharmacy addition; the David Eccles School of Business complex; the Smith Athletic Center and the Thatcher Building for

Figure 4

Condensed Statement of Cash Flows – for the years ended June 30 (in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Cash flows from (to):					
Operating activities	$ (97,275)	$ (69,708)	$ (88,110)	$(138,590)	$(222,867)
Noncapital financing activities	373,559	370,417	385,873	375,423	395,669
Capital and related financing activities	(217,177)	(159,856)	(103,936)	(283,249)	(211,574)
Investing activities	(198,791)	(46,417)	108	(260,201)	(67,662)
Net increase (decrease) in cash	(139,684)	94,436	193,935	(306,617)	(106,434)
Cash - beginning of year	562,499	468,063	274,128	580,745	687,179
Cash - end of year	$422,815	$562,499	$468,063	$ 274,128	$ 580,745

Biological and Biophysical Chemistry. All of the current projects will be completed over the next several years.

- Hospital Revenue Bonds Series 2011B were issued in the amount of $66,480,000. These bonds were issued 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.
- Auxiliary and Campus Facilities System Revenue Bonds Series 2012A were approved but not issued until July 2012. Proceeds from these bonds will be used to expand the Dee Glen Smith Athletic Center and to construct an ambulatory care parking structure.

Strong debt ratings carry substantial advantages for the University such as continued and wider access to capital markets when the University issues debt, lower interest rates on bonds and the ability to negotiate favorable bond terms.

The University takes its role of financial stewardship seriously and works hard to manage its financial resources effectively. Continued high debt ratings, currently Aa2 according to Moody's and AA according to the S&P, are important indicators of the University's success in this area.

OUTLOOK FOR THE COMING FISCAL YEAR

The University's enrollment for Fall 2012 was up 2.3% from the prior fall semester. The increase included 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 flat, 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 5.8% at the end of August 2012 (as compared to 8.1% nationally). Enrollment for Fall 2012 continues that trend and is up 2.3% partly in response to continued stresses in the economy.

During the 2012 legislative session, the University's recurring budget for 2012-2013 was increased by 1.5% compared to 2011-2012 The economic growth in Utah is expected to accelerate during 2012 with employment forecasted to increase 2.5% for the year, with larger increases as the year progresses. We are cautiously optimistic that the 2013 legislative session will provide additional small increases in funding.

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 $1.3 billion through the end of August 2012. Support for research ($385 million), facilities ($308 million), and public programs ($210 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, we believe our portfolio will provide solid financial footing for the University's endowments over the long term.

Overall, the University is in a sound financial position. The institution has strong strategic leadership and prudent financial management that should help us achieve our vision for the future as the economy in Utah recovers.

FINANCIAL STATEMENTS

THE UNIVERSITY OF UTAH | Statement of Net Assets

(in thousands of dollars)

As of June 30

	2012	[For Comparison Only] 2011
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2 & 4)	$ 370,905	$ 439,716
Short-term investments (Notes 2 & 4)	664,883	369,648
Receivables, net (Note 5)	341,052	346,751
Inventory (Note 1)	45,166	40,320
Other assets (Note 6)	17,479	20,477
Total current assets	1,439,485	1,216,912
Noncurrent Assets		
Restricted cash and cash equivalents (Notes 2 & 4)	51,910	122,783
Investments (Notes 3 & 4)	604,182	705,801
Restricted investments (Notes 3 & 4)	397,744	372,704
Restricted receivables, net (Note 5)	84,471	60,561
Donated property held for sale	1,834	1,837
Other assets (Note 6)	52,290	57,527
Capital assets, net (Note 7)	2,288,364	1,867,630
Total noncurrent assets	3,480,795	3,188,843
Total assets	4,920,280	4,405,755
LIABILITIES		
Current Liabilities		
Accounts payable (Note 5)		
to the State of Utah	15,998	15,117
to Others	86,230	92,812
Accrued payroll	95,281	86,404
Compensated absences and early retirement benefits (Note 1 & 15)	4,814	4,588
Deferred revenue (Note 9)	51,812	73,888
Deposits and other liabilities (Notes 11 & 15)	72,588	76,913
Bonds, notes and contracts payable (Notes 14, 15, & 16)	42,386	38,320
Total current liabilities	369,109	388,042
Noncurrent Liabilities		
Compensated absences and early retirement benefits (Note 1 & 15)	50,623	48,038
Deposits and other liabilities (Notes 11 & 15)	15,313	13,848
Bonds, notes and contracts payable (Notes 14, 15, & 16)		
to the State of Utah	101,595	
to Others	597,661	553,927
Total noncurrent liabilities	765,192	615,813
Total liabilities	1,134,301	1,003,855
NET ASSETS		
Invested in capital assets, net of related debt	1,569,553	1,352,284
Restricted for		
Nonexpendable		
Instruction	140,693	137,791
Research	38,379	37,950
Public service	62,120	58,408
Academic support	35,676	35,904
Scholarships	127,735	127,711
Other	7,063	7,329
Expendable		
Research	135,132	130,945
Public service	97,055	102,212
Academic support	34,087	31,871
Institutional support	34,107	46,544
Scholarships	44,620	45,919
Loans	34,011	33,699
Debt service	11,630	8,102
Capital additions	174,529	123,312
Other	21,512	24,651
Unrestricted	1,218,077	1,097,268
Total net assets	$3,785,979	$3,401,900

The accompanying notes are an integral part of these financial statements

(in thousands of dollars)

For the Year Ended June 30

	2012	[For Comparison Only] 2011
OPERATING REVENUES AND EXPENSES		
Revenues		
Tuition and fees, net (Note 1)	$ 263,631	$ 235,925
Patient services, net (Notes 1 & 13)	1,267,171	1,178,146
Federal grants and contracts	289,632	271,707
State and local grants and contracts	17,339	14,236
Nongovernmental grants and contracts	94,950	97,858
Sales and services, net (Note 1)	605,365	584,999
Auxiliary enterprises, net (Note 1)	96,812	93,612
Other operating revenues	65,046	57,157
Total operating revenues	2,699,946	2,533,640
Expenses		
Compensation and benefits	1,581,667	1,480,663
Component units	356,355	356,599
Supplies	328,922	306,491
Purchased services	140,352	121,844
Depreciation and amortization	171,867	139,935
Utilities	69,328	64,820
Cost of goods sold	34,881	33,837
Repairs and maintenance	49,455	36,866
Scholarships and fellowships	30,096	28,319
Other operating expenses	196,707	177,553
Total operating expenses	2,959,630	2,746,927
Operating loss	(259,684)	(213,287)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	253,909	250,536
Government grants	53,492	57,841
Gifts	61,138	56,229
Investment income	19,877	95,824
Interest	(31,068)	(23,510)
Other nonoperating expenses	(5,112)	(11,854)
Total nonoperating revenues	352,236	425,066
Income before capital and permanent endowment additions	92,552	211,779
CAPITAL AND PERMANENT ENDOWMENT ADDITIONS		
Capital appropriations	164,092	9,037
Capital grants and gifts	113,469	30,425
Additions to permanent endowments	13,966	19,187
Total capital and permanent endowment additions	291,527	58,649
Increase in net assets	384,079	270,428
NET ASSETS		
Net assets - beginning of year	3,401,900	3,131,472
Net assets - end of year	$3,785,979	$3,401,900

The accompanying notes are an integral part of these financial statements

THE UNIVERSITY OF UTAH | Statement of Cash Flows

(in thousands of dollars)

For the Year Ended June 30

	2012	[For Comparison Only] 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees	$ 263,367	$ 236,903
Receipts from patient services	1,294,551	1,148,315
Receipts from grants and contracts	398,042	386,440
Receipts from auxiliary and educational services	703,224	680,184
Collection of loans to students	6,654	7,523
Payments to suppliers	(1,178,310)	(1,076,694)
Payments for compensation and benefits	(1,573,683)	(1,483,858)
Payments for scholarships and fellowships	(30,096)	(28,319)
Loans issued to students	(6,971)	(6,658)
Other	25,947	66,456
Net cash used by operating activities	(97,275)	(69,708)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	253,909	250,536
Government grants	53,492	57,841
Federal direct loan receipts	143,049	133,583
Federal direct loan payments	(143,049)	(133,583)
Gifts		
Endowment	13,988	18,948
Nonendowment	60,751	55,027
Other	(8,581)	(11,935)
Net cash provided by noncapital financing activities	373,559	370,417
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	72,239	105,019
Capital appropriations	21,952	7,495
Gifts	82,315	53,808
Purchase of capital assets	(326,010)	(246,259)
Principal paid on capital debt	(39,106)	(56,441)
Interest paid on capital debt	(28,567)	(23,478)
Net cash used by capital and related financing activities	(217,177)	(159,856)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	921,947	1,391,253
Receipt of interest and dividends on investments	26,252	24,438
Purchase of investments	(1,146,990)	(1,462,108)
Net cash used by investing activities	(198,791)	(46,417)
Net increase (decrease) in cash	(139,684)	94,436
Cash - beginning of year	562,499	468,063
Cash - ending of year	$ 422,815	$ 562,499

Continued on next page...

(in thousands of dollars)

For the Year Ended June 30

	2012	[For Comparison Only] 2011
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$(259,684)	$(213,287)
Adjustments		
Depreciation and amortization expense	171,867	139,935
Change in assets and liabilities		
Receivables, net	6,102	(31,706)
Inventory	(4,846)	(1,172)
Other assets	8,235	3,633
Accounts payable	(5,701)	18,854
Accrued payroll	5,174	(5,686)
Compensated absences and early retirement benefits	2,811	2,491
Deferred revenue	(22,076)	7,065
Deposits and other liabilities	843	10,165
Net cash used by operating activities	$ (97,275)	$ (69,708)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital leases	$ 117,229	$ 35,859
Donated property and equipment	7,222	6,012
Completed construction projects transferred from State of Utah (Note 1)	142,140	1,542
Annuity and life income	(967)	156
Increase (decrease) in fair value of investments	(6,373)	71,386
Total noncash investing, capital, and financing activities	$ 259,251	$ 114,955

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 September 28, 2012, 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, 2012, 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, 2012 and 2011:

Revenue Allowance	2012	2011
Tuition and fees	$39,563,826	$32,854,180
Patient services	79,394,803	67,510,220
Sales and services	3,628	6,629
Auxiliary enterprises	592,586	1,149,282

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, 2012, were approximately $10,872,000.

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, 2012, was approximately $53,147,000.

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, 68 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 which includes an estimated annual increase of 1%. A discount rate of 0.970% 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, 2012, these expenditures were approximately $1,408,000.

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, 2011 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, 2012, cash and cash equivalents and short-term investments consisted of:

Cash and Cash Equivalents	
Cash	$ (25,175,689)
Money market funds	124,098,274
Time certificates of deposit	20,762,641
Repurchase agreements	29,000,000
Commercial paper	7,849,604
Utah Public Treasurer's Investment Fund	246,280,437
U.S. Agencies	19,999,940
Total (fair value)	$ 422,815,207

Short-term Investments	
Time certificates of deposit	$ 2,907,075
Commercial paper	24,900,707
U.S. Treasuries	268,702,112
U.S. Agencies	297,166,435
Corporate notes	71,206,518
Total (fair value)	$ 664,882,847

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, 2012.

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, 2012, 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, 2012, was approximately $72,927,000. The net appreciation is a component of restricted expendable net assets.

At June 30, 2012, the investment portfolio composition was as follows:

Investments	
Time certificates of deposit	$ 963,620
U.S. Treasuries	123,241,355
U.S. Agencies	287,795,975
Municipal bonds	3,919,300
Corporate notes	26,496,297
Mutual funds	549,036,016
Common and preferred stocks	10,473,633
Total (fair value)	$1,001,926,196

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, 2012, the carrying amounts of the University's deposits and bank balances were $14,542,762 and $41,846,542, 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 $6,543,580, by the FDIC. The bank balances in interest bearing accounts in excess of $750,000 were uninsured and uncollateralized, leaving $35,302,962 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, private real estate, and hedge funds, such as long/short equities.

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, 2012, 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, 2012, the University had debt investments with quality ratings as shown 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, 2012, the University's custodial bank was both the custodian and the investment counterparty for $943,919,979 of U.S. Treasury and Agency securities purchased by the University and $52,985,838 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)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
Money market mutual funds	$ 108,815,328	$ 108,815,328			
Repurchase agreements	29,000,000	29,000,000			
Commercial paper	32,750,311	32,750,311			
Utah Public Treasurer's Investment Fund	246,280,437	246,280,437			
Time certificates of deposit	3,870,695	2,907,075	$ 963,620		
U.S. Treasuries	391,943,467	268,702,112	123,241,355		
U.S. Agencies	604,962,350	317,166,375	169,978,827	$112,417,658	$5,399,490
Corporate notes	97,702,815	71,206,518	26,496,297		
Municipal bonds	3,919,300			561,720	3,357,580
Mutual bond funds	201,227,361		20,992,096	179,535,289	699,976
Totals	$1,720,472,064	$1,076,828,156	$341,672,195	$292,514,667	$9,457,046

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, 2012, 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 20.1% and 8.4%, 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.

The following schedule presents receivables at June 30, 2012, including approximately $23,507,000 and $60,521,000 of noncurrent loans and pledges receivable, respectively:

Accounts	$483,675,211
Grants and contracts	51,614,161
Loans	31,366,652
Pledges	62,283,220
Notes	911,457
Interest	3,550,977
	633,401,678
Less allowances for doubtful accounts	(207,878,906)
Receivables, net	$425,522,772

Figure 2.

Investment Type	Fair Value	Quality Rating: AAA/A-1	AA	A	Unrated	No Risk
Money market mutual funds	$ 108,815,328	$ 6,353,412			$102,461,916	
Repurchase agreements – underlying:						
U.S. Agencies	29,000,000		$ 29,000,000			
Commercial paper	32,750,311	32,750,311				
Utah Public Treasurer's Investment Fund	246,280,437				246,280,437	
Time certificates of deposit	3,870,695	482,711		$ 2,907,075	480,909	
U.S. Treasuries	391,943,467					$391,943,467
U.S. Agencies	604,962,350	316,663,786	288,298,564			
Corporate notes	97,702,815		10,873,147	86,829,668		
Municipal bonds	3,919,300	3,357,580	561,720			
Mutual bond funds	201,227,361		83,623,297		117,604,064	
Totals	$1,720,472,064	$359,607,800	$412,356,728	$89,736,743	$466,827,326	$391,943,467

The following schedule presents the major components of accounts payable at June 30, 2012:

Vendors	$ 53,876,261
Interest	9,110,294
Payable to State	15,997,782
Other	23,243,437
Total accounts payable	$102,227,774

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, 2012 balance of prepaid rent to the State was $46,813,547.

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	$1,722,266,642	$607,482,482	$1,662,306	$2,328,086,818
Infrastructure and improvements	228,210,178	47,157,163	3,600,518	271,766,823
Land	20,379,520	1,703		20,381,223
Equipment (including intangibles)	736,683,006	122,869,439	23,494,767	836,057,678
Library materials	159,785,365	1,999,236	508,305	161,276,296
Art and special collections	58,518,587	2,653,990	37,698	61,134,879
Construction in progress	410,041,162	194,623,540	380,672,443	223,992,259
Total cost	3,335,884,460	976,787,553	409,976,037	3,902,695,976
Less accumulated depreciation				
Buildings	729,075,034	75,609,729	812,028	803,872,735
Infrastructure and improvements	126,076,924	13,588,198	3,600,518	136,064,604
Equipment	502,871,457	77,002,042	20,623,693	559,249,806
Library materials	110,231,000	4,913,463		115,144,463
Total accumulated depreciation	1,468,254,415	171,113,432	25,036,239	1,614,331,608
Capital assets, net	$1,867,630,045	$805,674,121	$384,939,798	$2,288,364,368

At June 30, 2012, the University had outstanding commitments for the construction and remodeling of University buildings of approximately $22,912,000.

Capital assets at June 30, 2012, 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 12.37% 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 16.86% (with an additional 1.50% to a 401(k) salary deferral program) and 34.12%, 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

Figure 4.	2012	2011	2010
State and School Contributory Retirement System	$ 2,132,243	$ 1,429,083	$ 1,397,844
State and School Noncontributory Retirement System	28,747,171	27,572,366	25,445,292
Public Safety Noncontributory Retirement System	427,891	407,628	412,295
TIAA-CREF	71,089,310	72,806,604	68,358,983
Fidelity	27,482,030	21,850,361	22,242,753
Vanguard			291,345
Pension plan	10,398,691	9,980,639	9,395,166
Profit sharing plan	9,468,399	8,943,919	8,936,365
Total contributions	$149,745,735	$142,990,600	$136,480,043

and the contributions to the employee's contract(s) become vested at the time the contribution is made. Employees are eligible to participate from the date of employment and are not required to contribute to the fund. Benefits provided to retired employees are based on the value of the individual contracts and the estimated life expectancy of the employee at retirement. For the year ended June 30, 2012, 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 vested 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), 457(b) traditional, Roth IRA, or a 401(k) plan. For employees enrolled in the Hospital Retirement Plan and contribute to a 403(b) or 457(b) IRA plan, the University matches up to 3% of an employee's contribution. For employees who are enrolled, total University employee contributions to the above plans for the fiscal year 2012 was approximately $47,843,000.

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, 2012, 2011, and 2010, 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, 2012, was $94,379,908.

In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of $12,805,465 as of June 30, 2012, based on a predetermined formula. The fair value of this stock as of June 30, 2012 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, 2012, 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, 2012, 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.

Figure 5.

	2012	2011
Estimated claims liability – beginning of year	$ 49,962,824	$ 52,990,573
Current year claims and changes in estimates	210,079,594	195,874,439
Claim payments, including related legal and administrative expenses	(207,279,192)	(198,902,188)
Estimated claims liability – end of year	$ 52,763,226	$ 49,962,824

13. HOSPITAL REVENUE

A. *Net Patient Service Revenue*

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

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

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

B. *Charity Care*

UUHC maintains records to identify and monitor the level of charity care it provides. Based on established rates, the charges foregone as a result of charity care during the year ended June 30, 2012, were approximately $39,208,000.

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.

Figure 6.

Fiscal Year	Operating	Capital
2013	$ 23,809,096	$ 24,494,874
2014	20,683,681	21,483,775
2015	18,901,987	21,003,041
2016	13,934,828	17,009,078
2017	9,839,269	14,341,210
2018 – 2022	40,226,763	39,477,888
2023 – 2027	20,721,043	46,246,912
2028 – 2032	7,094,383	36,484,572
2033 – 2037	1,364,964	
2038 – 2042	1,364,964	
2043 – 2047	1,364,964	
2048 – 2049	523,234	
Total future minimum lease payments	$159,829,176	220,541,350
Amount representing interest		(51,305,131)
Present value of future minimum lease payments		$169,236,219

At June 30, 2012, the historical cost of land and buildings held for lease and the related accumulated depreciation were $77,185,387 and $16,841,879, respectively.

B. Commitments

The University leases buildings and office and computer equipment. Capital leases are valued at the present value of future minimum lease payments. Assets associated with the capital leases are recorded as buildings and equipment together with the related long-term obligations. Assets currently financed as capital leases amount to $96,637,701 and $143,104,129 for buildings and equipment, respectively. Accumulated depreciation for these buildings and equipment amounts to $2,413,721 and $75,107,645, 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 $17,877,362 for the University and $6,766,724 for component units for the year ended June 30, 2012. Total operating lease commitments for the University include approximately $8,332,243 of commitments to component units.

Included in the above component unit lease expenses are leases by ARUP for its principal laboratory and office buildings, under long-term agreements, from a real estate investment trust in which one of its directors is a shareholder. The agreements have initial terms of fifteen years with 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, 2012 were $5,962,705.

Future minimum lease commitments for operating and capital leases as of June 30, 2012 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 obligations.

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

The revenue bonds are special limited obligations of the University. The obligation for repayment is solely that of the University and payable from the net revenues of auxiliary enterprises and UUHC, student building fees, land grant income, and recovered indirect costs. Neither the full faith

Figure 7.

Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2012(a)
Auxiliary and Campus Facilities						
Series 1987A - Refunding	3/1/87	2014	3.750% - 6.750%	$ 11,140,000	$ 35,000	$ 115,000
Series 1997A - Revenue	7/30/97	2027	Variable	52,590,000	1,000,000	3,000,000
Series 1998A - Revenue Refunding	7/1/98	2029	4.100% - 5.250%	120,240,000	28,181	31,097,904
Series 2005A - Refunding	8/2/05	2021	3.000% - 5.000%	42,955,000	3,365,908	30,948,401
Series 2010A - Revenue Refunding	5/11/10	2024	2.000% - 5.000%	23,515,000	523,870	25,130,902
Series 2010B - Revenue	12/28/10	2015	5.000%	2,570,000	66,280	2,761,114
Series 2010C - Revenue	12/28/10	2036	1.750% - 5.890%	42,525,000	1,190,000	42,525,000
Hospital						
Series 2005A - Revenue Refunding	7/14/05	2018	4.500% - 5.000%	30,480,000	3,829,792	21,851,049
Series 2006A - Revenue Refunding	10/26/06	2032	4.000% - 5.250%	77,145,000	134,120	81,654,312
Series 2009A - Revenue	12/17/09	2017	4.000% - 5.000%	9,135,000	1,453,539	9,516,036
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	1,557,212	38,670,174
Series 2011A - Revenue Refunding	5/24/11	2026	3.600%	20,145,000	995,000	19,580,000
Series 2011B - Revenue Refunding	7/28/11	2032	3.350% - 5.000%	66,480,000	203,989	72,058,874
Research Facilities						
Series 2004A - Revenue	6/30/04	2019	3.000% - 4.700%	9,685,000	652,715	5,206,156
Series 2005A - Revenue	2/15/05	2025	3.000% - 5.000%	5,515,000	250,753	4,155,098
Series 2005B - Refunding	6/07/05	2020	3.000% - 5.000%	20,130,000	1,044,332	9,838,346
Series 2008A - Revenue Refunding	10/7/08	2022	3.250% - 5.000%	9,360,000	613,364	7,336,919
Series 2009A - Revenue	8/26/09	2019	4.000% - 5.000%	19,080,000	1,883,061	14,895,566
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	1,711,455	36,892,713
Total					$20,538,571	$526,748,564

(a) Includes unamortized premiums and losses on refunding.

Figure 8.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$432,304,702	$72,239,371	$ 14,688,222	$489,855,851	$ 18,827,116
Certificates of participation	38,524,717		1,632,004	36,892,713	1,711,455
Capital leases payable	72,709,939	117,229,194	20,702,914	169,236,219	19,221,352
Notes and contracts payable	48,707,926	254,698	3,304,896	45,657,728	2,626,657
Total long-term debt	592,247,284	189,723,263	40,328,036	741,642,511	42,386,580
Compensated absences	52,626,212	37,838,916	35,028,331	55,436,797	4,813,655
Deposits & other liabilities	90,760,711	74,053,868	76,913,802	87,900,777	72,587,940
Total long-term liabilities	$735,634,207	$301,616,047	$152,270,169	$884,980,085	$119,788,175

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, 2012, is $3,350,000.

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, 2012, no funds have been drawn against the agreement. The interest requirement for the Series 1997A Bonds is calculated using an annualized interest rate of 0.32%, which is the rate in effect at June 30, 2012.

During fiscal year 2012, the University issued the Hospital Revenue Bonds Series 2011B in the amount of $66,480,000 issued on July 28, 2011 for the purpose of acquiring a multi-specialty outpatient care facility in South Jordan.

Figure 7 on the previous page, lists the outstanding bonds payable and certificates of participation of the University at June 30, 2012.

UURF has purchased three buildings with two mortgages that are guaranteed by the University. The remaining amounts of the mortgages are

$4,433,136 at 8.87% interest and $2,235,038 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 $2,179,774 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, 2012.

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

	Payments	
Fiscal Year	**Principal**	**Interest**
2013	$ 42,386,580	$ 32,890,989
2014	40,797,438	31,539,827
2015	41,356,807	30,091,697
2016	40,296,460	28,558,125
2017	39,261,003	26,930,906
2018 – 2022	175,943,388	110,752,058
2023 – 2027	195,323,063	67,698,410
2028 – 2032	155,662,773	19,753,226
2033 – 2036	10,614,999	1,707,030
Total	$741,642,511	$349,922,268

Interest related to bond systems with pledged revenues amounts to $263,841,704 and is included in the interest amounts in the above schedule.

Figure 9.

Function	Compensation and Benefits	Supplies and Services	Utilities	Scholarships & Fellowships	Depreciation & Amortization	Component Units	Total
Instruction	$ 284,512	$ 46,673	$ 1,851	$42,586			$ 375,622
Research	191,621	117,254	1,397	3,405			313,677
Public service	453,441	77,590	23,709	1,909	$ 753		557,402
Academic support	65,136	25,864	749	185			91,934
Student services	18,311	7,335	235	385			26,266
Institutional support	45,845	(8,806)	5,258	782			43,079
Plant maintenance	24,330	23,289	17,042	2			64,663
Student aid	3,250	45,154	18	(22,403)			26,019
Other	36,689	(67,698)	6,637	3,245	152,166		131,039
Hospital	456,192	483,661	12,432				952,285
Component Units	2,341				18,948	$356,355	377,644
Total	$1,581,668	$750,316	$69,328	$30,096	$171,867	$356,355	$2,959,630

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, 2012, is $365,000.

17. FUNCTIONAL CLASSIFICATION OF EXPENSES

Figure 9 presents, in thousands of dollars, operating expenses by functional classification for the year ended June 30, 2012.

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, 2012.

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 $17,080,000 for the year ended June 30, 2012. 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, 2012, the University had committed, but not paid, a total of $23,700,239 in funding for these alternative investments.

21. SUBSEQUENT EVENTS

On July 10, 2012, the University issued $46,235,000 of Auxiliary and Campus Facilities System Revenue Bonds Series 2012A. Principal on the bonds is due annually commencing April 1, 2013 through April 1, 2032. Bond interest is due semiannually commencing October 1, 2012 at rates ranging from 2.00% to 5.00%. Proceeds from these bonds are to be used to expand the Dee Glen Smith Athletic Center and to construct an ambulatory care parking structure.

Figure 10.

	Bond Systems		
	Auxiliary & Campus Facilities	**Hospital**	**Research Facilities**
Revenue			
Operating revenue	$77,372,912	$1,008,532,930	$85,506,029
Nonoperating revenue	8,917,287	6,362,714	
Total revenue	86,290,199	1,014,895,644	85,506,029
Expenses			
Operating expenses	64,296,094	955,170,515	64,631,275
Total expenses	64,296,094	955,170,515	64,631,275
Net pledged revenue	$21,994,105	$ 59,725,129	$20,874,754
Principal paid and interest expense	$11,804,741	$ 17,692,860	$ 7,471,771

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