2013 Annual Financial Report

THE UNIVERSITY OF UTAH

A Component Unit of the State of Utah

THE MISSION OF THE UNIVERSITY OF UTAH IS TO SERVE THE PEOPLE OF UTAH AND THE WORLD THROUGH THE DISCOVERY, CREATION AND APPLICATION OF KNOWLEDGE; THROUGH THE DISSEMINATION OF KNOWLEDGE BY TEACHING, PUBLICATION, ARTISTIC PRESENTATION AND TECHNOLOGY TRANSFER; AND THROUGH COMMUNITY ENGAGEMENT. AS A PREEMINENT RESEARCH AND TEACHING UNIVERSITY WITH NATIONAL AND GLOBAL REACH, THE UNIVERSITY CULTIVATES AN ACADEMIC ENVIRONMENT IN WHICH THE HIGHEST STANDARDS OF INTELLECTUAL INTEGRITY AND SCHOLARSHIP ARE PRACTICED. STUDENTS AT THE UNIVERSITY LEARN FROM AND COLLABORATE WITH FACULTY WHO ARE AT THE FOREFRONT OF THEIR DISCIPLINES. THE UNIVERSITY FACULTY AND STAFF ARE COMMITTED TO HELPING STUDENTS EXCEL. WE ZEALOUSLY PRESERVE ACADEMIC FREEDOM, PROMOTE DIVERSITY AND EQUAL OPPORTUNITY, AND RESPECT INDIVIDUAL BELIEFS. WE ADVANCE RIGOROUS INTERDISCIPLINARY INQUIRY, INTERNATIONAL INVOLVEMENT, AND SOCIAL RESPONSIBILITY.

THE UNIVERSITY OF UTAH


UTAH

TABLE OF CONTENTS

Message from the President

David W. Pershing

It is a pleasure to present this financial report for the University of Utah's 2013 fiscal year. We are proud of the many accomplishments of our faculty and students this year, and thankfully acknowledge the extraordinary support from the broader University community. We are particularly indebted to citizens of the State of Utah and our many benefactors for their continued support and generosity.

Of literally hundreds of exciting successes, gratifying milestones, and promising new developments at the University of Utah over the past year, let me cite just a few:

- Over the past year, a number of highly accomplished, nationally recognized scholars and administrators have been enticed to join the U's leadership team. Ruth V. Watkins, former dean of the College of Liberal Arts and Sciences at the University of Illinois at Urbana-Champaign is now the U's Sr. Vice President for Academic Affairs. We have also welcomed, or shortly will welcome, new deans of the Graduate School, the College of Nursing, the School of Dentistry, and the College of Education, as well as a new dean and director of the Marriott Library. They bring to their positions fresh perspectives and purpose, adding greatly to the quality and timbre of academic life on the University campus and in our larger community.

- A number of exciting new building projects, either completed or under construction, will greatly enhance our ability to provide a rich environment for collaborative teaching, cutting-edge research, student learning and leadership development, technology transfer, and athletic success. They include the Spencer Fox Eccles Business Building for the David Eccles School of Business, the Beverley Taylor Sorenson Arts and Education Building, the Spence and Cleone Eccles Football Center, the Thatcher Building for Biological and Biophysical Chemistry, the L.S. Skaggs Pharmacy Research Building, and the George S. Eccles Student Life Center.

- Thanks to support from the Legislature and Governor, the School of Medicine class size will expand from 82 to 122 students by 2015. With fewer than one primary-care physician per every 1,000 people in the state (ranking Utah near the bottom in the nation), educating more medical students each year will have an extraordinary impact on the quality of life of the people of our state.

- The new Donna Garff Marriott Honors Residential Scholars Community was dedicated. This on-campus housing facility provides apartment-style living to 309 honors students. It includes classroom and collaborative workspaces that facilitate the honors learning model, one that is based on small, intensive courses led by distinguished faculty across disciplines, and often with involvement by community experts.

- The University's School of Dentistry -- the first new academic dental school in the nation in more than 25 years — has enrolled its first cohort of 20 students. The school will be an important partner with the U's clinical, research, and training programs in nursing, pharmacy, health, and medicine, and will be located in Research Park in a new building made possible by the generosity of Ray and Tye Noorda and other donors.

- The S. J. Quinney College of Law is celebrating its 100th anniversary this year and construction of its new building is underway. This new, innovative facility will build on the college's excellence, dramatically augmenting its ability to educate lawyers and leaders for the twenty-first century, produce cutting-edge scholarship on critical issues facing our nation, and provide much-needed service to our community.

- To mark and celebrate 100 years of the University's education of gifted pianists from around the state, nation and world, an amazing recital, including performances by three recent graduates of the University's School of Music, was given at New York City's Steinway Hall. A yearlong series of public and private concerts and community events will continue this celebration.

- In April, University Neighborhood Partners celebrated the grand opening of the new 10,000-square-foot Hartland Partnership Center. The center brings together University of Utah faculty members and students, non-profit organizations, and residents of west Salt Lake City to collaborate on programs and projects that address economic, linguistic, educational, and social challenges.

- Through the generosity of John and Melody Taft and Sandi Nicholson, the University will be gifted the Environmental Humanities Education Center located north and east of the Continental Divide along the Montana-Idaho border. Here in the Centennial Valley, the largest wetland complex in the Greater Yellowstone Ecosystem is found. The Center – to be renamed the Taft Nicholson Environmental Humanities Education Center – will make possible a unique and unparalleled introduction for students, faculty, and visitors to the ecology, history, wildlife and conservation issues of the area, and will provide unlimited opportunities for research, teaching, and the creative arts.

The University continues to excel and grow because of the shared commitment, hard work, and generosity of tens of thousands of people. To all of you — students, faculty, administrators, staff, alumni, community leaders, donors, friends, and fans — thank you. Your dedication, support and myriad contributions reinforce my strong belief that the University will continue to excel and thrive as an active partner in the lives and economic well-being of the people of Utah.

OFFICE OF THE
UTAH STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Trustees, Audit Committee
and
David W. Pershing, President
University of Utah

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of Utah, a component unit of the State of Utah, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 29% ($1,478,486,000) and 47% ($1,598,390,073), respectively, of the assets and revenues of the University of Utah. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Utah Hospitals and Clinics or the University's blended component units, is based solely on the report of the other auditors. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report 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, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The Message from the President and the listing of the governing boards and officers have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on this other information.

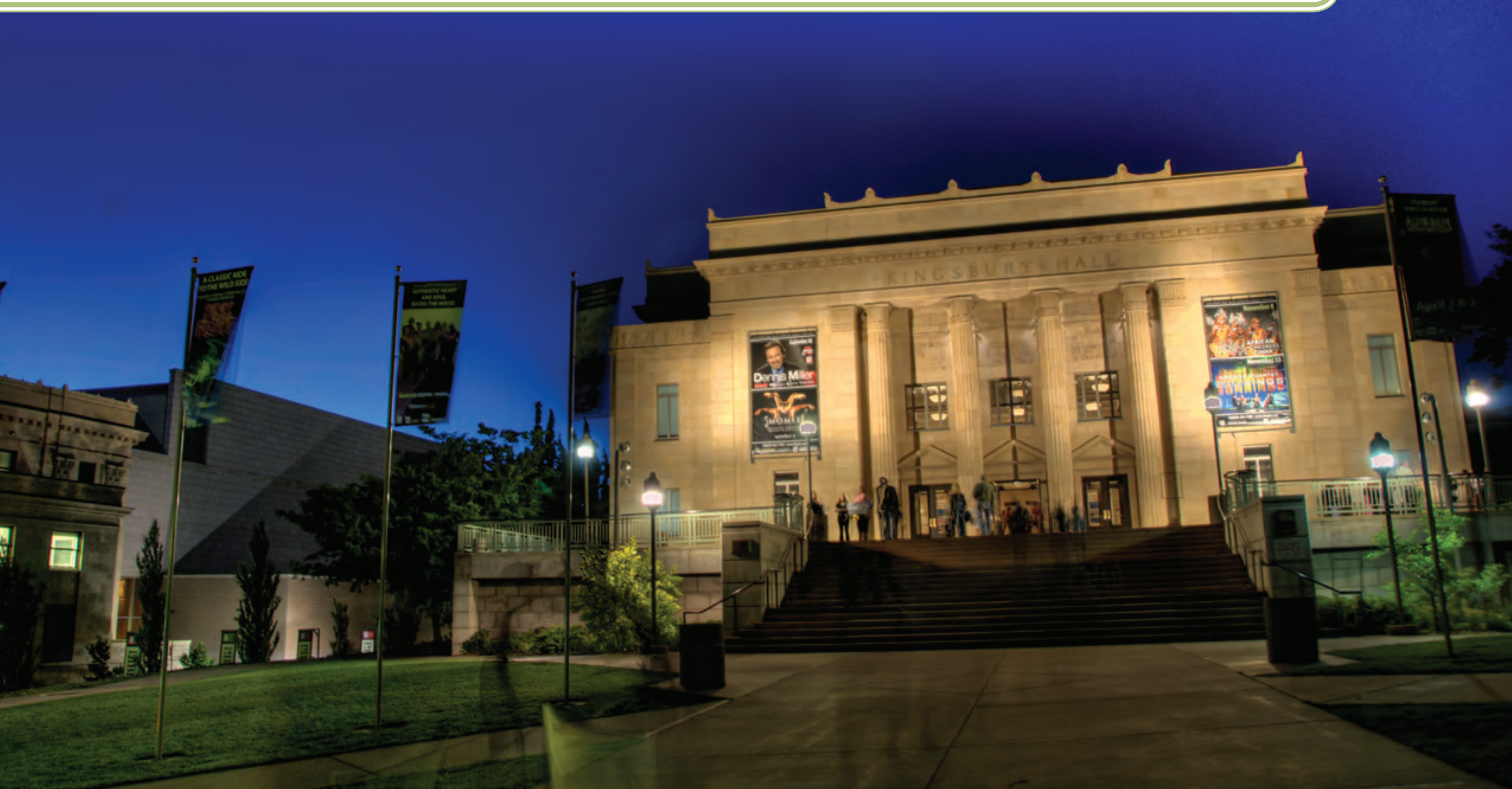
OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Office of the Utah State Auditor

Office of the Utah State Auditor
October 23, 2013

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, 2013, 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 position for the entire University entity, including the University of Utah 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 31,000 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 announced the establishment of a new dental school, enrolling its first four year class in the fall of 2013, the first new academic dental school in the nation in more than 25 years. The dental school will be an important partner with the University's other clinical, research, and training programs in nursing, pharmacy, health and medicine.

The S.J. Quinney College of Law broke ground on its new state-of-the-art building and celebrated its 100th birthday at a symposium and gala event.

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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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 Position presents the financial position of the University at the end of the fiscal year and includes all assets, liabilities, and net position of the University. Net position is 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 Position 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 position for the year. The change in net position 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 constrained 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 POSITION

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

Total net position increased 3.0% from the prior year and 36.2% 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 an increase of 7.1% in fiscal year 2013 primarily due to additional long-term debt issued in conjunction with capital construction projects. Total net position — 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 POSITION

The results of the University's operations for the fiscal year are shown in the Statement of Revenues, Expenses, and Changes in Net Position. The beginning net position was adjusted for certain capital assets and associated accumulated depreciation. A condensed statement of revenues, expenses, and changes in net position for the past five fiscal years is shown in *Figure 2* on page 10.

Revenues from tuition and fees increased 7.0% from the prior year — and 66.5% 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 1.4% from the prior year but decreasing 3.5% 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 12.3% from the prior year; and have increased 33.2% 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.

Grant and contract revenues decreased 9.0% from the prior year primarily due to expiring ARRA funding and the federal sequestration resulting in mandatory across the board reductions affecting domestic spending including money granted by federal agencies. Grant and contract revenues have increased 18.9% over the five year period.

Sales and services revenue increased 4.4% from the prior year, and also maintained a consistent upward trend for the five year period — increasing 20%. 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 7.7% and 32.1%, from the prior year and for the five year period, respectively.

Operating expenses, have increased as well; 8.2% over the prior year and 30.5% for the five year period. With compensation and benefits representing 53% 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 in *Figure 3* on page 11.

Figure 1.

Condensed Statement of Net Position – as of June 30 (in thousands)	**2013**	**2012**	**2011**	**2010**	**2009**
Current assets	$1,611,001	$1,439,485	$1,216,912	$1,149,117	$1,218,554
Noncurrent assets					
Capital assets, net	2,345,007	2,288,364	1,867,630	1,681,491	1,578,878
Other noncurrent assets	1,158,414	1,192,431	1,321,213	1,151,039	834,568
Total Assets	5,114,422	4,920,280	4,405,755	3,981,647	3,632,000
Current liabilities	451,560	369,109	388,042	353,846	361,738
Noncurrent liabilities	763,138	765,192	615,813	496,329	406,125
Total Liabilities	1,214,698	1,134,301	1,003,855	850,175	767,863
Net investment in capital assets	1,614,132	1,569,553	1,352,284	1,289,089	1,202,270
Restricted, nonexpendable	448,353	411,666	405,093	342,260	308,513
Restricted, expendable	507,337	586,683	547,255	543,482	512,701
Unrestricted	1,329,902	1,218,077	1,097,268	956,641	840,653
Total Net Position	$3,899,724	$3,785,979	$3,401,900	$3,131,472	$2,864,137

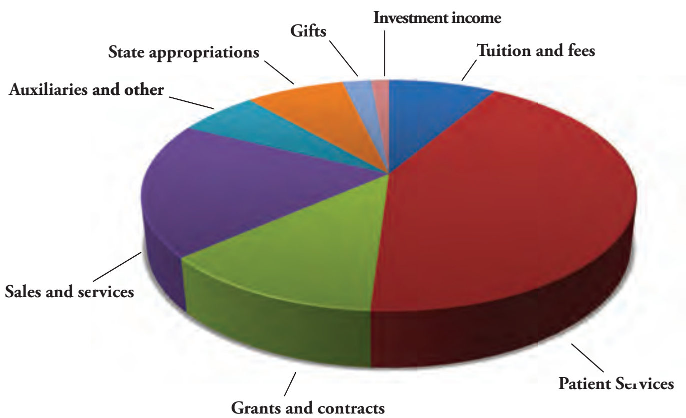
Figure 2.

Condensed Statement of Revenues, Expenses, and Changes in Net Position — for the years ended June 30 (in thousands)[1]	**2013**	**2012**	**2011**	**2010**	**2009**
Operating revenues					
Tuition and fees, net	$ 281,981	$ 263,631	$ 235,925	$ 201,300	$ 169,351
Patient services, net	1,422,544	1,267,171	1,178,146	1,092,663	1,067,747
Grants and contracts	365,555	401,921	383,801	343,842	307,574
Sales and services	631,772	605,365	584,999	571,859	526,323
Auxiliary and other	205,792	161,858	150,769	163,190	129,933
Total operating revenues	2,907,644	2,699,946	2,533,640	2,372,854	2,200,928
Operating expenses	3,201,911	2,959,630	2,746,927	2,584,244	2,453,010
Operating loss	(294,267)	(259,684)	(213,287)	(211,390)	(252,082)
Nonoperating revenues					
State appropriations	257,456	253,909	250,536	246,631	266,761
Gifts	74,918	61,138	56,229	64,826	65,037
Investment income (loss)	46,628	19,877	95,824	62,661	(45,153)
Other net nonoperating revenue	22,475	17,312	22,477	40,813	2,016
Total nonoperating revenues	401,477	352,236	425,066	414,931	288,661
Income before capital and permanent endowment additions	107,210	92,552	211,779	203,541	36,579
Capital and permanent endowment additions	79,529	291,527	58,649	63,794	140,517
Increase in net position	186,739	384,079	270,428	267,335	177,096
Net position - beginning of year (as adjusted)	3,712,985	3,401,900	3,131,472	2,864,137	2,687,041
Net position - end of year	$3,899,724	$3,785,979	$3,401,900	$3,131,472	$2,864,137

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

Figure 3.					
Total Expenses	**2013**	**2012**	**2011**	**2010**	**2009**
Operating expenses					
Compensation and benefits	$1,695,719	$1,581,667	$1,480,663	$1,413,344	$1,339,703
Component units	365,502	356,355	356,599	347,731	328,196
Supplies	339,244	328,922	306,491	292,367	277,509
Depreciation and amortization	186,679	171,867	139,935	131,965	118,475
Other	614,767	520,819	463,239	398,837	389,127
Total operating expenses	3,201,911	2,959,630	2,746,927	2,584,244	2,453,010
Nonoperating expenses					
Interest and other	33,210	36,180	35,364	35,794	32,481
Total expenses	$3,235,121	$2,995,810	$2,782,291	$2,620,038	$2,485,491

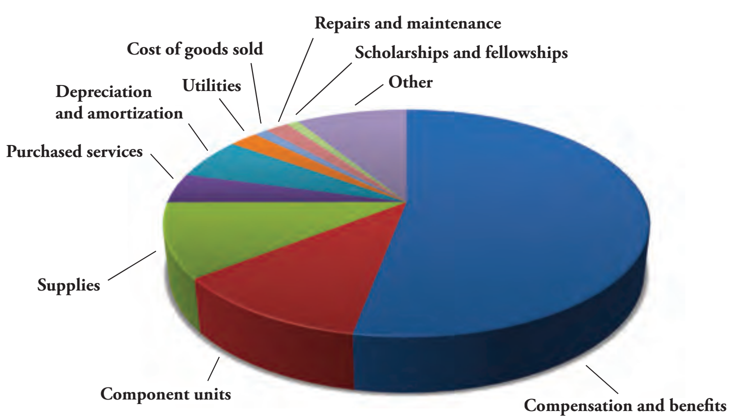
The graph below shows the various types of funding available to support the operations of the University:



Sources of Revenue in Support of Operations
Fiscal Year Ending June 30, 2013

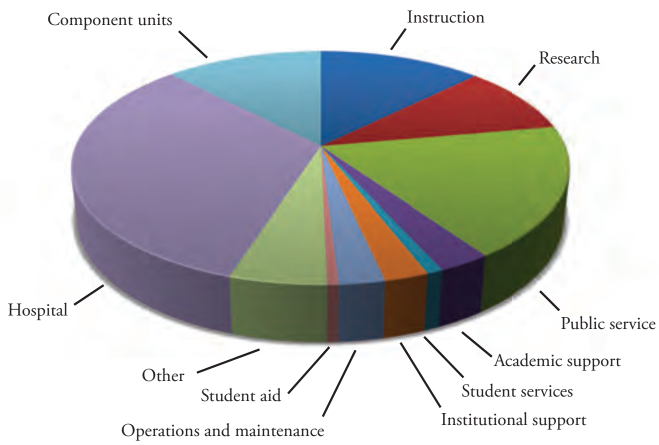
Tuition and fees	281,981
Patient Services	1,422,544
Grants and contracts	417,025
Sales and services	631,772
Auxiliaries and other	210,007
State appropriations	257,456
Gifts	74,918
Investment income	46,628

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



Operating Expenses
For the Year Ended June 30, 2013

Compensation and benefits	1,695,719
Component units	365,502
Supplies	339,244
Purchased services	134,861
Depreciation and amortization	186,679
Utilities	72,395
Cost of goods sold	35,453
Repairs and maintenance	59,449
Scholarships and fellowships	30,937
Other	281,672



Functional Classification of Operating Expenses
For the Year Ended June 30, 2013

Instruction	$402,493
Research	307,843
Public service	581,993
Academic support	92,754
Student services	28,252
Institutional support	77,127
Operations and maintenance	80,424
Student aid	19,638
Other	170,027
Hospital	1,052,295
Component units	389,065

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 Position 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.

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 is shown above.

STATEMENT OF CASH FLOWS

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

Cash flows from operations primarily consist 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 increased 27.1% from the prior year, and was up 96.0% for the five year period. The University actively manages its investment portfolio by balancing returns and liquidity which may cause changes in cash balances. 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 Donna Garff Marriott Residential Scholars Community; David Eccles School of Business complex; the L.S. Skaggs Jr. Research

Figure 4.

Condensed Statement of Cash Flows – for the years ended June 30 (in thousands)	**2013**	**2012**	**2011**	**2010**	**2009**
Cash flows from (to):					
Operating activities	$ (51,985)	$ (97,275)	$ (69,708)	$ (88,110)	$(138,590)
Noncapital financing activities	387,525	373,559	370,417	385,873	375,423
Capital and related financing activities	(232,193)	(217,177)	(159,856)	(103,936)	(283,249)
Investing activities	11,109	(198,791)	(46,417)	108	(260,201)
Net increase (decrease) in cash	114,456	(139,684)	94,436	193,935	(306,617)
Cash - beginning of year	422,815	562,499	468,063	274,128	580,745
Cash - end of year	$537,271	$422,815	$562,499	$468,063	$ 274,128

Building; and the Thatcher Building for Biological and Biophysical Chemistry. Ongoing projects include the ambulatory care wing of the University Hospital; the Dee Glen Smith Athletic Center; the S.J. Quinney College of Law; the Student Life Center; the Sorenson Arts and Education Building; and the Dental Education Building. All of the current projects will be completed over the next several years.

- Auxiliary and Campus Facilities Revenue Bonds Series 2012A in the amount of $46,235,000 were issued on July 10, 2012 for the expansion of the Dee Glen Smith Athletic Center and to construct an ambulatory care parking structure.
- General Revenue Bonds Series 2013A were approved but not issued until July 2013. Proceeds from these bonds will be used to construct a student center, a basketball training center, a building for the College of Law, and a parking structure in the Health, Physical Education and Recreation complex.
- Taxable Commercial Paper General Revenue Refunding Notes, Series 2013B were approved but not issued until July 2013. Proceeds from these notes will be used to refund certain of the University's outstanding bonds.

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 Aa1 according to Moody's and AA according to 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 2013 decreased 1% from Fall 2012. The decrease was primarily due to a drop in undergraduate enrollment in headcount and full-time equivalent status. 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 projected to climb steadily through 2020. However, during FY2013, the Church of Jesus Christ of Latter-day Saints lowered the minimum age for missionaries from 19 for men and 21 for women to 18 and 19, respectively. This is the major reason for the decline in undergraduate enrollment for Fall 2013. We believe this may impact undergraduate enrollment through FY2015 but then we anticipate increased enrollment as missionaries return. After 2015, enrollment should stabilize based on the pool of potential Utah public school students.

During the 2013 legislative session, the University's recurring budget for 2013-2014 was increased by 8% compared to 2012-2013 which included funding to increase the medical school class size. The economic growth in Utah is expected to continue during 2013 with

job growth forecast to increase at 3.5% for the year, with larger increases as the year progresses. Unemployment in Utah was 4.7% at the end of August 2013 as compared to 7.3% nationally. We are cautiously optimistic that the 2014 legislative session will see additional 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, however, due to the federal sequester, anticipates constrained research funding in future years.

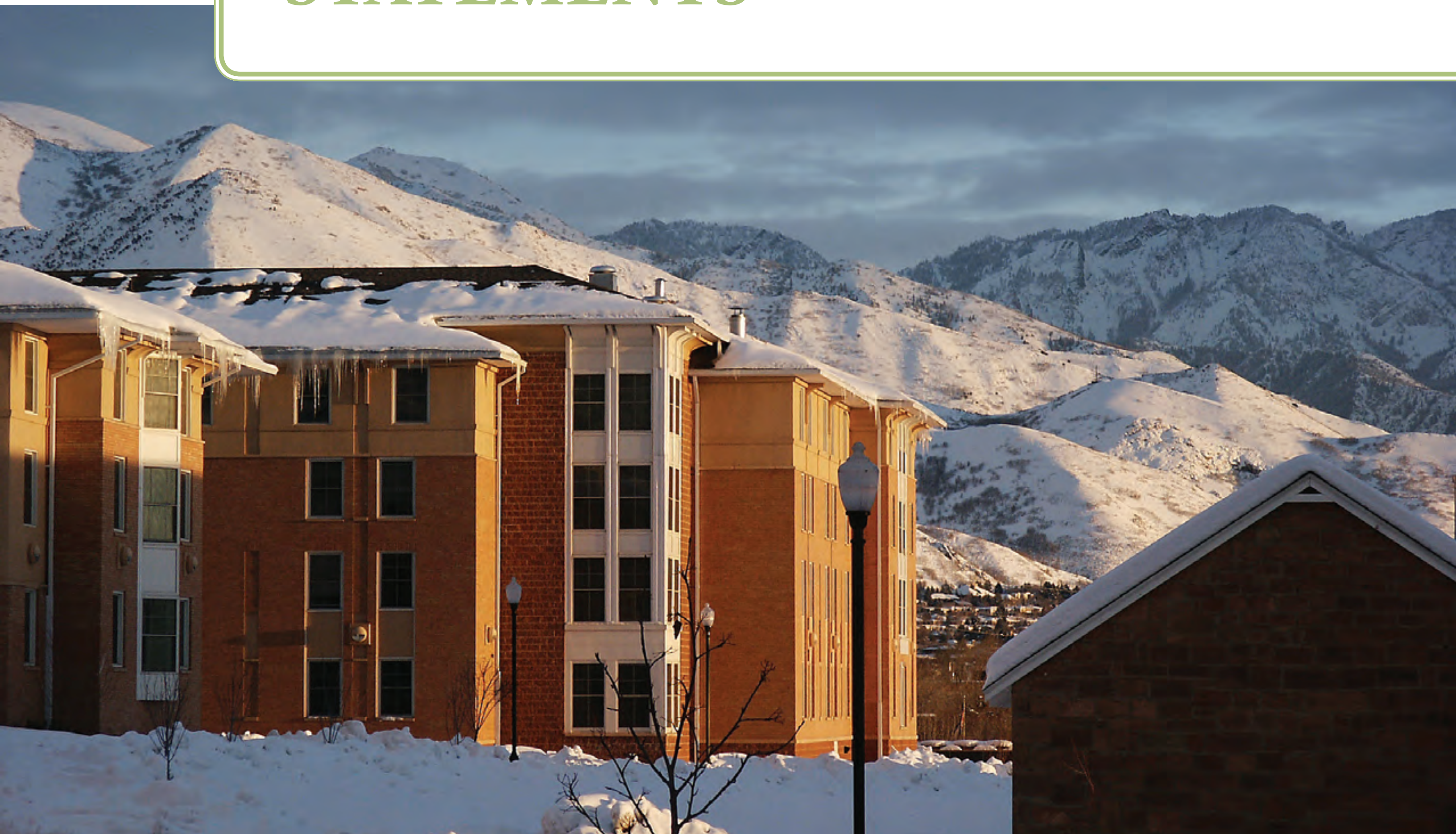
The capital campaign has raised $1.4 billion through the end of August 2013. Support for research ($436 million), facilities ($338 million), and public programs ($235 million) has been outstanding. The University continues to benefit from the generosity of its donors and supporters.

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's endowment's 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 work together to ensure its mission is met in the future.

FINANCIAL STATEMENTS



THE UNIVERSITY OF UTAH | Statement of Net Position

(in thousands of dollars)

As of June 30, 2013

ASSETS	
Current Assets	
Cash and cash equivalents (Notes 2 & 4)	$ 486,626
Short-term investments (Notes 2 & 4)	706,015
Receivables, net (Note 5)	340,670
Inventory (Note 1)	54,646
Other assets (Note 6)	23,047
Total current assets	1,611,004
Noncurrent Assets	
Restricted cash and cash equivalents (Notes 2 & 4)	50,645
Investments (Notes 3 & 4)	555,487
Restricted investments (Notes 3 & 4)	441,728
Restricted receivables, net (Note 5)	60,708
Donated property held for sale	3,321
Other assets (Note 6)	46,522
Capital assets, net (Note 7)	2,345,007
Total noncurrent assets	3,503,418
Total assets	5,114,422
LIABILITIES	
Current Liabilities	
Accounts payable (Note 5)	
to the State of Utah	34,094
to Others	98,826
Accrued payroll	106,905
Compensated absences and early retirement benefits (Note 1 & 15)	32,571
Unearned revenue (Note 9)	50,016
Deposits and other liabilities (Notes 11 & 15)	84,955
Bonds, notes and contracts payable (Notes 14, 15, & 16)	
to the State of Utah	1,300
to Others	42,893
Total current liabilities	451,560
Noncurrent Liabilities	
Compensated absences and early retirement benefits (Note 1 & 15)	31,695
Deposits and other liabilities (Notes 11 & 15)	16,445
Bonds, notes and contracts payable (Notes 14, 15, & 16)	
to the State of Utah	100,295
to Others	614,703
Total noncurrent liabilities	763,138
Total liabilities	1,214,698
NET POSITION	
Net investment in capital assets	1,614,132
Restricted for	
Nonexpendable	
Instruction	151,519
Research	40,151
Public service	69,246
Academic support	39,943
Scholarships	139,906
Other	7,588
Expendable	
Research	74,595
Public service	114,746
Academic support	31,689
Institutional support	9,648
Scholarships	59,470
Loans	33,707
Debt service	1,258
Capital additions	116,955
Other	65,269
Unrestricted	1,329,902
Total net position	$3,899,724

The accompanying notes are an integral part of these financial statements

THE UNIVERSITY OF UTAH | Statement of Revenues, Expenses, and Changes in Net Position

(in thousands of dollars)

For the Year Ended June 30, 2013

OPERATING REVENUES AND EXPENSES	
Revenues	
Tuition and fees, net (Note 1)	$ 281,981
Patient services, net (Notes 1 & 13)	1,422,544
Federal grants and contracts	256,671
State and local grants and contracts	15,957
Nongovernmental grants and contracts	92,927
Sales and services, net (Note 1)	631,772
Auxiliary enterprises, net (Note 1)	108,996
Other operating revenues	96,796
Total operating revenues	2,907,644
Expenses	
Compensation and benefits	1,695,719
Component units	365,502
Supplies	339,244
Purchased services	134,861
Depreciation and amortization	186,679
Utilities	72,395
Cost of goods sold	35,453
Repairs and maintenance	59,449
Scholarships and fellowships	30,937
Other operating expenses	281,672
Total operating expenses	3,201,911
Operating loss	(294,267)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	257,456
Government grants	51,470
Gifts	74,918
Investment income	46,628
Interest	(33,210)
Other nonoperating revenues	4,215
Total nonoperating revenues	401,477
Income before capital and permanent endowment additions	107,210
CAPITAL AND PERMANENT ENDOWMENT ADDITIONS	
Capital appropriations	41,581
Capital grants and gifts	18,319
Additions to permanent endowments	19,629
Total capital and permanent endowment additions	79,529
Increase in net position	186,739
NET POSITION	
Net position - beginning of year, as adjusted (Note 7)	3,712,985
Net position - end of year	$3,899,724

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tuition and fees	$ 282,283
Receipts from patient services	1,419,084
Receipts from grants and contracts	371,272
Receipts from auxiliary and educational services	741,131
Collection of loans to students	6,654
Payments to suppliers	(1,267,165)
Payments for compensation and benefits	(1,675,761)
Payments for scholarships and fellowships	(30,936)
Loans issued to students	(6,629)
Other	108,082
Net cash used by operating activities	(51,985)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	257,456
Government grants	51,470
Federal direct loan receipts	134,438
Federal direct loan payments	(134,438)
Gifts	
Endowment	19,631
Nonendowment	72,247
Other	(13,279)
Net cash provided by noncapital financing activities	387,525
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	53,078
Capital appropriations	16,334
Gifts	37,417
Purchase of capital assets	(275,403)
Principal paid on capital debt	(47,639)
Interest paid on capital debt	(15,980)
Net cash used by capital and related financing activities	(232,193)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	1,570,458
Receipt of interest and dividends on investments	21,060
Purchase of investments	(1,580,409)
Net cash provided by investing activities	11,109
Net increase in cash	114,456
Cash - beginning of year	422,815
Cash - ending of year	$ 537,271

Continued on next page...

The accompanying notes are an integral part of these financial statements

(in thousands of dollars)

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	$(294,267)
Adjustments	
Depreciation and amortization expense	186,679
Change in assets and liabilities	
Receivables, net	2,034
Inventory	(9,480)
Other assets	199
Accounts payable	30,693
Accrued payroll	11,129
Compensated absences and early retirement benefits	8,829
Deferred revenue	(1,796)
Deposits and other liabilities	13,995
Net cash used by operating activities	$ (51,985)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Capital leases	$ 12,373
Donated property and equipment	3,292
Completed construction projects transferred from State of Utah (Note 1)	25,247
Annuity and life income	(264)
Increase in fair value of investments	25,568
Total noncash investing, capital, and financing activities	$ 66,216

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 20, 2013, 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 30, 2013, has been issued under separate cover.

All Governmental Accounting Standards Board (GASB) pronouncements are applied by the University, UURF and ARUP in the accounting and reporting of their operations.

The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The requirements of these Statements are effective for fiscal years 2013 and 2014, respectively. In addition, GASB issued Statement No. 67, *Financial Reporting for Pension Plans — an Amendment of GASB Statement No. 25*, and GASB Statement No. 68, *Financial Reporting for Pension Plans — an Amendment of GASB Statement No. 27*, effective for fiscal years 2014 and 2015, respectively.

These new accounting and reporting standards may impact the University's recognition and timing of assets and liabilities in the financial statements. The requirements of these statements may require restating beginning net position. The University is not planning to early implement these Statements and has made no estimation of the effect they will have on the financial statements.

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 tracked and spent 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, distributes 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, 2013 and 2012:

Revenue Allowance	2013	2012
Tuition and fees	$46,802,903	$39,563,826
Patient services	90,690,617	79,394,803
Sales and services	472	3,628
Auxiliary enterprises	1,377,661	592,586

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, 2013, were approximately $10,326,000.

G. Compensated Absences & Early Retirement Benefits

Employees' vacation leave, excluding UUHC, 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. Eligible 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, 2013, was approximately $31,620,000.

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, 63 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 0.780% 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, 2013, these expenditures were approximately $1,313,000.

Employees of University Hospitals & Clinics receive a combined accrual for paid time off in lieu of the separate vacation and sick accruals received by University employees. Accrual rates for paid time off begin at 13.33 hours per month and increase each five years until the maximum accrual of 20.00 hours per month is reached after ten years of service. The maximum number of hours which can be carried forward at the beginning of a calendar year is 520 hours for staff and 600 hours for managers and directors. Employees who meet specified accrual balances have the option to receive an annual payout of 40 or 80 hours in November. Employees are paid for all unused paid time off hours upon termination. The cost of paid time off is accrued each month by the Hospital. The liability for paid time off at June 30, 2013, was approximately $30,475,000.

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.

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 and 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, 2013, cash and cash equivalents and short-term investments consisted of:

Cash and Cash Equivalents	
Cash	$(24,482,607)
Money market funds	216,790,980
Time certificates of deposit	30,434,960
Repurchase agreements	47,000,000
Commercial paper	4,998,978
Utah Public Treasurer's Investment Fund	242,300,294
U.S. Agencies	19,048,599
Corporate notes	1,179,925
Total (fair value)	$537,271,129

Short-term Investments	
Time certificates of deposit	961,777
Commercial paper	14,106,598
U.S. Treasuries	217,360,427
U.S. Agencies	383,837,003
Municipal bonds	2,843,382
Corporate notes	86,906,205
Total (fair value)	$706,015,392

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, 2013.

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, 2013, 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, 2013, was approximately $94,204,000. The net appreciation is a component of restricted expendable net position.

At June 30, 2013, the investment portfolio composition was as follows:

Investments	
U.S. Treasuries	$ 30,714,060
U.S. Agencies	312,934,255
Municipal bonds	3,741,565
Corporate notes	18,102,940
Mutual funds	621,544,120
Common and preferred stocks	10,178,097
Total (fair value)	$997,215,037

4. DEPOSITS AND INVESTMENTS

The 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 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, 2013, the carrying amounts of the University's deposits and bank balances were $35,471,262 and $46,173,933, respectively. The Federal Deposit Insurance Corporation (FDIC) provides deposit insurance coverage up to $250,000 for all accounts for each depositor at each banking institution. As a result, the bank balances of the University were insured for $888,769, by the FDIC. The bank balances in excess of $888,769 were uninsured and uncollateralized, leaving $45,285,164 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; 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 Treasurers' 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 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 -15 months or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding three 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, 2013, 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, 2013, the University had debt investments with quality ratings as shown in *Figure 2* below.

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, 2013, the University's custodial bank was both the custodian and the investment

Figure 1.		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
Money market mutual funds	$ 206,358,188	$ 206,358,188			
Repurchase agreements	47,000,000	47,000,000			
Commercial paper	19,105,576	19,105,576			
Utah Public Treasurer's Investment Fund	242,300,294	242,300,294			
Time certificates of deposit	961,777	961,777			
U.S. Treasuries	248,074,487	217,360,427	$ 30,714,060		
U.S. Agencies	715,819,857	402,885,602	105,635,672	$ 203,600,362	$3,698,221
Corporate notes	106,189,070	88,086,130	18,102,940		
Municipal bonds	6,584,947	2,843,382		531,205	3,210,360
Mutual bond funds	211,659,535		36,655,993	175,003,542	
Totals	$1,804,053,731	$1,226,901,376	$191,108,665	$379,135,109	$6,908,581

Figure 2.			Quality Rating			
Investment Type	**Fair Value**	**AAA/A-1**	**AA**	**A**	**Unrated**	**No Risk**
Money market mutual funds	$ 206,358,188	$ 26,420,830			$179,937,358	
Repurchase agreements – underlying:						
U.S. Agencies	47,000,000		$ 29,412,482		17,587,518	
Commercial paper	19,105,576	19,105,576				
Utah Public Treasurer's Investment Fund	242,300,294				242,300,294	
Time certificates of deposit	961,777	240,434	240,434		480,909	
U.S. Treasuries	248,074,487					$248,074,487
U.S. Agencies	715,819,857	387,366,262	328,453,595			
Corporate notes	106,189,070			$106,189,070		
Municipal bonds	6,584,947	6,053,742	531,205			
Mutual bond funds	211,659,535		81,052,869		130,606,666	
Totals	$1,804,053,731	$439,186,844	$439,690,585	$106,189,070	$570,912,745	$248,074,487

counterparty for $949,117,970 of U.S. Treasury and Agency securities purchased by the University and $14,776,374 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.

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, 2013, 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 24.3% and 6.6%, 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, 2013, including approximately $213,000, $22,965,000 and $37,530,000 of noncurrent notes, loans and pledges receivable, respectively:

Accounts	$485,245,463
Grants and contracts	41,618,368
Loans	31,307,163
Pledges	39,398,650
Notes	615,157
Interest	3,226,262
	601,411,063
Less allowances for doubtful accounts	(200,033,333)
Receivables, net	$401,377,730

The following schedule presents the major components of accounts payable at June 30, 2013:

Vendors	$61,916,169
Interest	9,174,706
Payable to State	34,093,757
Other	27,735,595
Total accounts payable	$132,920,227

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, 2013 balance of prepaid rent to the State was $42,132,192.

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 $250,000 for the University or $5,000 for UUHC. Equipment is capitalized when acquisition costs exceed $5,000 for the University or $2,500 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 for the University or $2,500 for both purchased and developed software for UUHC. 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.

At June 30, 2013, the University had outstanding commitments for the construction and remodeling of University buildings of approximately $21,500,000.

The beginning net position was adjusted by approximately $72,994,000 for certain costs and associated accumulated depreciation. As a result, the beginning balance of asset costs decreased by approximately $18,822,000 and the beginning balance of associated accumulated depreciation increased by approximately $54,172,000. Capital assets at June 30, 2013, are shown in *Figure 3* below.

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

Figure 3.	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	$2,286,588,212	$246,870,004	$ 428,748	$2,533,029,468
Infrastructure and improvements	282,754,859	24,553,468	3,780,451	303,527,876
Land	22,145,223	5,059,521		27,204,744
Equipment (including intangibles)	836,794,418	94,026,190	32,292,192	898,528,416
Library materials	161,276,295	1,402,070	1,380,036	161,298,329
Art and special collections	60,430,019	2,043,398	21,150	62,452,267
Construction in progress	233,885,379	183,059,655	259,092,883	157,852,151
Total cost	3,883,874,405	557,014,306	296,995,460	4,143,893,251
Less accumulated depreciation				
Buildings	851,622,760	84,394,477	18,711,844	917,305,393
Infrastructure and improvements	141,873,949	16,426,712	7,019,414	151,281,247
Equipment	559,862,878	81,264,050	29,812,012	611,314,916
Library materials	115,144,463	3,840,733		118,985,196
Total accumulated depreciation	1,668,504,050	185,925,972	55,543,270	1,798,886,752
Capital assets, net	$2,215,370,355	$371,088,334	$241,452,190	$2,345,006,499

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), or Fidelity Investments (Fidelity). 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 14.27% 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 18.76% (with an additional 1.50% to a 401(k) salary deferral program) and 37.29%, respectively, of plan members' annual salaries. The contribution requirements of the Systems are authorized by statute and specified by the Board and the contribution rates are actuarially determined.

TIAA-CREF and Fidelity provide individual retirement fund contracts with each participating employee. Employees may allocate contributions by the University to any or all of the providers and the contributions to the employee's contract(s) become vested at the time the contribution is 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, 2013, 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 who 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 2013 was approximately $47,191,000.

The ARUP defined contribution pension and profit sharing plans provide retirement benefits for all employees. Employees may choose to pay into the

Figure 4.	2013	2012	2011
State and School Contributory Retirement System	$ 2,642,720	$ 2,132,243	$ 1,429,083
State and School Noncontributory Retirement System	23,851,120	28,747,171	27,572,366
Public Safety Contributory Retirement System	8,581	3,929	
Public Safety Noncontributory Retirement System	468,111	427,891	407,628
TIAA-CREF	68,212,455	71,089,310	72,806,604
Fidelity	35,048,897	27,482,030	21,850,361
Pension plan	10,375,206	10,398,691	9,980,639
Profit sharing plan	9,524,520	9,468,399	8,943,919
Total contributions	$150,131,610	$149,749,664	$142,990,600

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, 2013, 2012, and 2011, the University's contributions to the Systems were equal to the required amounts, as shown in *Figure 4* above.

9. UNEARNED REVENUE

Unearned 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, 2013, was $104,740,254.

In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of $12,730,579 as of June 30, 2013, based on a predetermined formula. The fair value of this stock as of June 30, 2013 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 Division of Risk Management. Employees of the University and authorized volunteers are covered by workers' compensation and employees' liability through the Workers' Compensation Fund.

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, 2013, 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* below.

The University has recorded the investments of the malpractice liability trust funds at June 30, 2013, and the estimated liability for self-insurance claims at that date in the Statement of Net Position. 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 Position.

12. INCOME TAXES

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

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

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

13. HOSPITAL REVENUE

A. *Net Patient Service Revenue*

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

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

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

B. *Charity Care*

UUHC maintains records to identify and monitor the level of charity care it provides. Based on established rates, the charges foregone as a result of charity care during the year ended June 30, 2013, were approximately $42,182,000.

Figure 5.	**2013**	**2012**
Estimated claims liability - beginning of year	$ 52,763,226	$ 49,962,824
Current year claims and changes in estimates	169,535,732	210,079,594
Claim payments, including related legal and administrative expenses	(168,464,627)	(207,279,192)
Estimated claims liability - end of year	$ 53,834,331	$ 52,763,226

14. LEASES

A. Revenue

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

At June 30, 2013, the historical cost of land and buildings held for lease and the related accumulated depreciation were $77,152,934 and $18,681,943, 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 $88,466,000 and $55,820,800 for buildings and equipment, respectively. Accumulated depreciation for these buildings and equipment amounts to $5,714,000 and $26,984,397, respectively. Operating leases and related assets are not recorded in the Statement of Net Position. Payments are recorded as expenses when incurred and amount to approximately $17,207,051 for the University and $6,079,466 for component units for the year ended June 30, 2013. Total operating lease commitments for the University include approximately $9,989,312 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 publicly traded real estate investment trust. 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, 2013 were $5,962,705.

Future minimum lease commitments for operating and capital leases as of June 30, 2013 are shown in *Figure 6*.

Figure 6.

Fiscal Year	Operating	Capital
2014	$ 25,917,882	$ 8,905,042
2015	22,626,187	10,697,685
2016	17,213,582	9,787,061
2017	11,912,561	9,284,874
2018	9,255,835	8,529,292
2019 – 2023	38,747,134	39,479,250
2024 – 2028	17,493,677	49,652,049
2029 – 2033	5,264,943	24,548,781
2034 – 2038	1,364,964	
2039 – 2043	1,364,964	
2039 – 2048	1,364,964	
2049 – 2049	250,245	
Total future minimum lease payments	$152,776,938	160,884,034
Amount representing interest		(44,874,229)
Present value of future minimum lease payments		$116,009,805

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 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, 2013, is $2,630,000.

The University issued the Auxiliary and Campus Facilities Revenue Bonds Series 2012A in the amount of $46,235,000 on July 10, 2012 for the expansion of the Dee Glen Smith Athletic Center and to construct an ambulatory care parking structure.

The schedule shown in *Figure 7* below lists the outstanding bonds payable and certificates of participation of the University at June 30, 2013:

Figure 7.

Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2013(a)
Auxiliary and Campus Facilities						
Series 1998A - Revenue Refunding	7/1/98	2029	4.100% - 5.250%	120,240,000	29,658	31,069,723
Series 2005A - Refunding	8/2/05	2021	3.000% - 5.000%	42,955,000	3,553,547	27,582,493
Series 2010A - Revenue Refunding	5/11/10	2024	2.000% - 5.000%	23,515,000	540,678	24,607,032
Series 2010B - Revenue	12/28/10	2015	5.000%	2,570,000	1,322,552	2,694,834
Series 2010C - Revenue	12/28/10	2036	1.750% - 5.890%	42,525,000	-	41,335,000
Series 2012A - Revenue	7/10/12	2032	2.000% - 5.000%	46,235,000	1,843,814	50,843,692
Hospital Facilities						
Series 2005A - Revenue Refunding	7/14/05	2018	4.500% - 5.000%	30,480,000	4,022,015	18,021,257
Series 2006A - Revenue Refunding	10/26/06	2032	4.000% - 5.250%	77,145,000	173,839	81,780,843
Series 2009A - Revenue	12/17/09	2017	4.000% - 5.000%	9,135,000	1,493,006	8,062,497
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	1,598,265	37,112,964
Series 2011A - Revenue Refunding	5/24/11	2026	3.600%	20,145,000	1,035,000	18,585,000
Series 2011B – Revenue Refunding	7/28/11	2032	3.350% - 5.000%	66,480,000	211,649	71,854,885
Research Facilities						
Series 2004A - Revenue	6/30/04	2019	3.000% - 4.700%	9,685,000	677,836	4,553,441
Series 2005A - Revenue	2/15/05	2025	3.000% - 5.000%	5,515,000	255,993	3,904,345
Series 2005B - Refunding	6/07/05	2020	3.000% - 5.000%	20,130,000	1,087,145	8,794,014
Series 2008A - Revenue Refunding	10/7/08	2022	3.250% - 5.000%	9,360,000	638,892	6,723,555
Series 2009A - Revenue	8/26/09	2019	4.000% - 5.000%	19,080,000	1,957,928	13,012,505
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	1,796,134	35,181,258
Total					$22,237,951	$555,234,338

(a) Includes unamortized premiums and losses on refunding.

Figure 8.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$489,855,851	$ 53,078,395	$ 22,881,166	$520,053,080	$ 20,441,817
Certificates of participation	36,892,713		1,711,455	35,181,258	1,796,134
Capital leases payable	116,371,429	4,372,877	4,734,501	116,009,805	4,664,477
Notes and contracts payable	98,522,518	8,059,081	18,634,955	87,946,644	17,290,701
Total long-term debt	741,642,511	65,510,353	47,962,077	759,190,787	44,193,129
Compensated absences	55,436,797	29,003,658	20,174,346	64,266,109	32,570,523
Deposits & other liabilities	87,900,777	86,087,239	72,587,944	101,400,072	84,955,390
Total long-term liabilities	$884,980,085	$180,601,250	$140,724,367	$924,856,968	$161,719,042

UURF has purchased three buildings with two mortgages that are guaranteed by the University. The remaining amounts of the mortgages are $4,022,804 at 8.87% interest and $2,058,115 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 $1,906,514 at interest rates ranging from 3.00% to 4.70%.

The schedule shown in *Figure 8* above summarizes the changes in long-term liabilities for the year ended June 30, 2013. The beginning balances of capital leases payable and notes and contracts payable have been adjusted due to a change in financing arrangements for certain equipment.

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

	Payments	
Fiscal Year	Principal	Interest
2014	$ 44,148,466	$ 33,663,731
2015	44,843,059	32,154,090
2016	44,777,762	30,539,176
2017	43,351,716	28,826,257
2018	38,227,346	27,078,875
2019 – 2023	191,123,497	110,517,868
2024 – 2028	213,222,531	63,218,313
2029 – 2033	131,376,410	14,477,873
2034 – 2036	8,120,000	1,037,648
Total	$759,190,787	$341,513,831

Interest related to bond systems with pledged revenues amounts to $264,589,835 and is included in the interest amounts in the above schedule.

16. RETIREMENT OF DEBT

In prior years, the University defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. The total principal amount of defeased bonds held in irrevocable trusts at June 30, 2013, is $255,000.

17. FUNCTIONAL CLASSIFICATION OF EXPENSES

Figure 9 on the next page presents, in thousands of dollars, operating expenses by functional classification for the year ended June 30, 2013.

Figure 9.

Function	Compensation & Benefits	Supplies & Services	Utilities	Scholarships & Fellowships	Depreciation & Amortization	Component Units	Total
Instruction	$ 297,546	$ 54,563	$ 1,830	$48,554			$ 402,493
Research	197,295	104,979	2,361	3,208			307,843
Public service	480,409	73,699	25,458	1,674	$ 753		581,993
Academic support	65,878	25,858	828	190			92,754
Student services	19,047	8,423	386	396			28,252
Institutional support	70,674	257	5,335	861			77,127
Plant maintenance	25,449	39,743	15,230	2			80,424
Student aid	3,931	43,054	13	(27,360)			19,638
Other	40,032	17,118	6,985	3,412	102,480		170,027
Hospital	492,282	482,985	13,969		63,059		1,052,295
Component Units	3,176				20,387	$365,502	389,065
Total	$1,695,719	$850,679	$72,395	$30,937	$186,679	$365,502	$3,201,911

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 below, presents the net revenue pledged to the applicable bond system and the principal paid and interest expense for the year ended June 30, 2013.

Figure 10.

	Bond Systems		
	Auxiliary & Campus Facilities	Hospital	Research Facilities
Revenue			
Operating revenue	$82,969,820	$1,152,123,937	$81,200,831
Nonoperating revenue	8,335,545	6,694,042	
Total revenue	91,305,365	1,158,817,979	81,200,831
Expenses			
Operating expenses	68,781,881	1,071,060,822	77,221,843
Total expenses	68,781,881	1,071,060,822	77,221,843
Net pledged revenue	$22,523,484	$ 87,757,157	$ 3,978,988
Principal paid and interest expense	$18,901,113	$ 20,414,835	$ 7,481,678

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 $17,411,000 for the year ended June 30, 2013. 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, 2013, the University had committed, but not paid, a total of $25,974,179 in funding for these alternative investments.

21. BLENDED COMPONENT UNITS

The schedules, *Figures 11, 12, and 13*, below and opposite page, present exclusive of eliminations, condensed statements of net position, changes in net position, and cash flows for UURF and ARUP for the year ended June 30, 2013.

Figure 11. **Condensed Statement of Net Position**

	UURF	ARUP	Total
ASSETS			
Current assets:			
Receivable from University	$ 440,996	$ 4,333,785	$ 4,774,781
Other	4,269,606	277,060,983	281,330,589
Capital assets, net	58,869,839	117,714,567	176,584,406
Other noncurrent assets	1,848,858	292,750	2,141,608
Total assets	65,429,299	399,402,085	464,831,384
LIABILITIES			
Current liabilities:			
Payable to University	1,760,464	6,402,632	8,163,096
Other	4,584,346	43,108,706	47,693,052
Noncurrent liabilities	39,030,271	3,871,764	42,902,035
Total liabilities	45,375,081	53,383,102	98,758,183
NET POSITION			
Net investment in capital assets	17,726,220	117,714,567	135,440,787
Unrestricted	2,327,998	228,304,416	230,632,414
Total net position	$20,054,218	$346,018,983	$366,073,201

Figure 12.	Condensed Statement of Revenues, Expenses, and Changes in Net Position		
	UURF	ARUP	Total
OPERATING REVENUES			
Leases	$ 12,613,314		$ 12,613,314
Royalties	13,062,507		13,062,507
Sales and services		$461,713,292	461,713,292
Net increase in fair value of investments	443,354		443,354
Total operating revenues	26,119,175	461,713,292	487,832,467
OPERATING EXPENSES			
Operating expenses	11,706,260	370,897,283	382,603,543
Depreciation	1,874,308	18,512,582	20,386,890
Total operating expenses	13,580,568	389,409,865	402,990,433
Operating income	12,538,607	72,303,427	84,842,034
NONOPERATING REVENUES (EXPENSES)			
Investment income	4,434	889,495	893,929
Interest expense	(2,504,589)		(2,504,589)
Distributions to the University	(5,213,775)	(30,524,882)	(35,738,657)
Total nonoperating expenses	(7,713,930)	(29,635,387)	(37,349,317)
Net increase in net position	4,824,677	42,668,040	47,492,717
NET POSITION			
Net position – beginning of year	15,229,541	303,350,943	318,580,484
Net position – end of year	$20,054,218	$346,018,983	$366,073,201

Figure 13.	Condensed Statement of Cash Flows		
	UURF	ARUP	Total
Net cash provided by operating activities	$13,030,388	$92,086,274	$105,116,662
Net cash used by noncapital financing activities	(5,283,346)	(30,284,457)	(35,567,803)
Net cash used by capital and related financing activities	(4,772,475)	(28,929,898)	(33,702,373)
Net cash used by investing activities	(197,377)	(34,059,989)	(34,257,366)
Net increase (decrease) in cash	2,777,190	(1,188,070)	1,589,120
Cash – beginning of year	844,610	28,055,464	28,900,074
Cash – end of year	$ 3,621,800	$26,867,394	$ 30,489,194

22. SUBSEQUENT EVENTS

On July 30, 2013, the University issued $127,925,000 of General Revenue Bonds Series 2013A. Principal on the bonds is due annually commencing August 1, 2019 through August 1, 2023 and August 1, 2043. Bond interest is due semiannually commencing February 1, 2014 at a rate of 5.00%. Proceeds from these bonds are to be used to construct a student center, a basketball training center, a building for the College of Law, and a parking structure in the Health, Physical Education and Recreation complex.

In addition, also on July 30, 2013, the University issued $100,000,000 of Taxable Commercial Paper General Revenue Refunding Notes, Series 2013B. Principal on the notes is due no later than 270 days from the date of issuance and is expected to be paid with the proceeds of additional Series 2013B Notes until permanent financing for such debt is obtained through issuance of long-term bonds. Proceeds from these notes are used to refund certain of the University's outstanding bonds.

UUHC entered into a $30 million capital lease to finance the electronic medical record system in August 2013. This lease will be repaid over a 10 year period at an interest rate of 1.97%. In addition, UUHC purchased land for approximately $8 million as a site for future construction of a multispecialty clinic.

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THE UNIVERSITY OF UTAH

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