2014 Annual Financial Report

The University of Utah

A Component Unit of the State of Utah

THE UNIVERSITY OF UTAH


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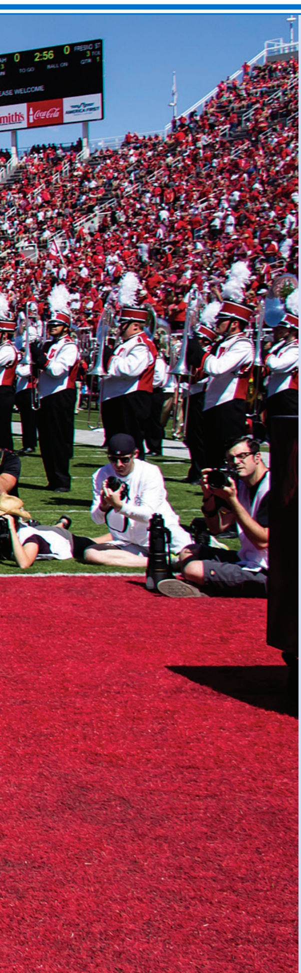


Message from the President
David W. Pershing

The University of Utah's annual financial report for fiscal 2014 provides the financial details of a continuing success story. We celebrate the accomplishments of our talented students, faculty and administrators and the innovation and research that have occurred across campus, as well as new programs and new facilities that enhance the overall experience of the U's learning community.

It is with deep gratitude that we acknowledge those who have entrusted us with the resources needed to facilitate remarkable growth. We are particularly indebted to residents of the state of Utah and their elected leaders, as well as the Utah State Board of Regents, and our Board of Trustees for their support and service. The University of Utah is also fortunate to have literally thousands of donors who selflessly give back. They are our treasured partners. Through their generosity, we are able to offer life-changing opportunities for students, improve lives through research, advance knowledge, provide access to the arts, medical care, museums, and enable community outreach.

Hundreds of exciting achievements and developments have occurred during the past year at the U. I will share just a few.

- More than one thousand new scholarships were awarded in Fall 2014. These scholarships promote completion, reward achievement, and ensure student access.
- The holistic admission process provided the University with the highest achieving and most diverse class in the history of the University, while maintaining our commitment to the students of Utah.
- The class of 2014 included nearly 8,000 graduates from 76 countries, 40 U.S. states, and 28 Utah counties.
- The campus skyline changed again this year with the creation of new facilities that will enhance our ability to provide an environment for collaborative teaching, cutting-edge research, student learning and leadership development, technology transfer, and athletic success. Projects completed or underway in FY 2014 include: the Beverley Taylor Sorenson Arts and Education Building, the George S. Eccles Student Life Center, the Jon M. and Karen Huntsman Basketball Training Center, the S.J. Quinney College of Law building, the Ray and Tye Noorda Oral Health Sciences Building, Ambulatory Care Center, expansion and renovation of the Kennecott Building and Jon M. Huntsman Center arena, and the addition of two new parking facilities. University of Utah Health Care created greater access to their nationally ranked services with the construction of University of Utah Health Care's Midvalley Clinic. Research capability was also expanded with the addition of the Primary Children's and Families' Cancer Research Center at Huntsman Cancer Institute.

- The University of Utah Asia Campus is preparing to welcome its inaugural class in the fall of 2014. The campus in Songdo, South Korea, provides new global education and research opportunities for university students and faculty and important partnerships with other top tier universities. This valuable resource is made possible through the generosity of the Korean government, which is funding the U Asia Campus.
- Cutting-edge research at the U continues to drive economic progress and enrich lives. The University of Utah is the leading research institution in the state, receiving $398 million in research awards in FY 2014.
- University of Utah Health Care is the Intermountain West's only academic health care system, combining excellence in patient care, the latest in medical research, and exceptional teaching. University of Utah Health Care ranks among the nation's top academic medical centers, having won the University HealthSystem Consortium's Quality Leadership Award now five years running—a winning streak matched by only one other health system in the U.S.
- Numerous colleges and programs have moved up in national rankings. The U's Entertainment Arts and Engineering is second. The U's School of Business ranks in the top 25 for entrepreneurship, the College of Pharmacy is ranked in the top 10, the College of Law is in the top 50, and the Physician Assistant program ranks number two in the nation.
- Over the past year, a number of highly accomplished, nationally recognized scholars and administrators joined the U's leadership team. Included among them is Chief Business Officer John Nixon, former director of the Governor's Office of Planning and Budget for the state of Utah, and director of the Department of Technology, Management and Budget and state budget director for the state of Michigan. Each addition brings fresh perspectives and purpose, and adds to the existing depth of the reservoir of talent that exists at the University of Utah.

These examples barely scratch the surface of the exceptional achievements of FY 2014. They, and all others, are evidence of the hard work, dedication, and generosity of tens of thousands of people. To the students, faculty, administrators, staff, alumni, community leaders, donors, friends, and fans who share and better this academic community, thank you.

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 (University), a component unit of the State of Utah, as of and for the year ended June 30, 2014, 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 28 percent and 48 percent, respectively, of the assets and revenues of the University of Utah. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Utah Hospitals and Clinics and the University's blended component units, is based solely on the reports 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. The financial statements of the University's blended component units were not audited in accordance with *Government Auditing Standards*.

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 reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2014, and the changes in its 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 are presented for purposes of additional information and are not a required part of the basic financial statements. This message and the listing 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014 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, 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 30, 2014

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, 2014, 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, deferred outflows of resources, liabilities, and net position for the entire University entity, including the University of Utah Hospitals and Clinics (UUHC), which is part of University of Utah Health Care, as well as the balances and activities of two component units: the University of Utah Research Foundation (UURF) and ARUP Laboratories, Inc. (ARUP). UURF specializes in the transfer of patented technology to business entities as well as the leasing and administration of Research Park (a research park located on land owned by the University). ARUP is a national clinical and anatomic pathology reference laboratory. More information about these entities and their inclusion in the financial statements may be found in Note 1 – *Summary of Significant Accounting Policies – Reporting Entity*.

ABOUT THE UNIVERSITY OF UTAH

Founded in 1850, the University of Utah is the state's oldest and largest institution of higher education and is the flagship institution of the state system of higher education. The University offers over 100 major subjects at the undergraduate level and more than 90 major fields of study at the graduate level, including law and medicine, to over 32,000 students from across the United States and world, preparing students to live and compete in the global workplace. With more than 30,000 employees, it is one of the state's largest employers.

University of Utah Health Care is the only academic medical center in the state of Utah. It is also one of only three facilities in the state of Utah that the American College of Surgeons has recognized as a Level 1 trauma center and it has also received the National Cancer Institute Cancer Center designation. UUHC is the area's only hospital to offer burn trauma and high risk obstetric air transport.

In February, the Korean Ministry of Education announced approval for the University of Utah Asia Campus to be located within the Incheon area, part of one of Asia's largest free economic zones. The University began classes in September 2014, and enrolled students can choose from three undergraduate degrees: social work, communication, and psychology. The university will also offer one graduate degree in public health. Additional degree programs will be added to the Asia Campus offerings beginning in the fall of 2015 with the goal of 2,000 students enrolled at the campus within six years.

In February, the Beverley Taylor Sorenson Arts and Education Complex opened. The $37.5 million interdisciplinary facility for arts and education was made possible by a generous $12.5 million donation from the Sorenson Legacy Foundation, the largest single donation in support of arts and education in University history. Later, the University announced a $12 million gift from Pierre Lassonde for a new student-housing complex that will cater to student entrepreneurs by providing 20,000 square feet of workshop space where students can live, create products, and launch companies under one roof. The building was featured in Businessweek and compared to Google headquarters.

The College of Law ranked number 2 for student clinical opportunities this year, according to data compiled by National Jurist magazine. The University was recognized as a top-25 school for entrepreneurship for the fourth straight year in a survey released by the Princeton Review and a new online MBA program was established earlier this year.

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, deferred outflows of resources, liabilities, and net position of the University. Net position is one indicator of the current financial condition of the University. Assets, deferred outflows of resources, 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 below in *Figure 1*:

Total net position increased 5.5% from the prior year and 31.4% over the periods shown – 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 periods shown, with an increase of 11.7% in fiscal year 2014 primarily due to additional long-term debt issued in conjunction with capital construction projects. Total net position – the difference between total assets, total deferred outflows of resources, total liabilities and total deferred inflows of resources, has 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 for fiscal year 2013 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 3.3% from the prior year – and 44.7% over the periods shown. This consistently upward trend is reflective of the increases in enrollment and the students' increased contribution toward the University's budget.

Patient services revenues increased 11% from the prior year; and have increased 44.5% over the periods shown. This consistent growth reflects the UUHC's commitment to grow in capacity and quality in servicing the health care needs of the intermountain region.

Figure 1

Condensed Statement of Net Position - as of June 30 (in thousands)	**2014**	**2013**	**2012**	**2011**	**2010**
Current assets	$1,554,857	$1,611,001	$1,439,485	$1,216,912	$1,149,117
Noncurrent assets					
Capital assets, net	2,412,729	2,345,007	2,288,364	1,867,630	1,681,491
Other noncurrent assets	1,500,050	1,158,414	1,192,431	1,321,213	1,151,039
Total Assets	5,467,636	5,114,422	4,920,280	4,405,755	3,981,647
Deferred Outflow of Resources	3,310				
Current liabilities	582,192	451,560	369,109	388,042	353,846
Noncurrent liabilities	774,439	763,138	765,192	615,813	496,329
Total Liabilities	1,356,631	1,214,698	1,134,301	1,003,855	850,175
Net investment in capital assets	1,633,385	1,614,132	1,569,553	1,352,284	1,289,089
Restricted, nonexpendable	501,907	448,353	411,666	405,093	342,260
Restricted, expendable	522,044	507,337	586,683	547,255	543,482
Unrestricted	1,456,979	1,329,902	1,218,077	1,097,268	956,641
Total Net Position	$4,114,315	$3,899,724	$3,785,979	$3,401,900	$3,131,472

Figure 2					
Condensed Statement of Revenues, Expenses, and Changes in Net Position – for the years ended June 30 (in thousands)[1]	**2014**	**2013**	**2012**	**2011**	**2010**
Operating revenues					
Tuition and ftees, net	$ 291,184	$ 281,981	$ 263,631	$ 235,925	$ 201,300
Patient services, net	1,579,004	1,422,544	1,267,171	1,178,146	1,092,663
Grants and contracts	364,975	365,555	401,921	383,801	343,842
Sales and services	671,311	631,772	605,365	584,999	571,859
Auxiliary and other	217,177	205,792	161,858	150,769	163,190
Total operating revenues	3,123,651	2,907,644	2,699,946	2,533,640	2,372,854
Operating expenses	3,386,191	3,201,911	2,959,630	2,746,927	2,584,244
Operating loss	(262,540)	(294,267)	(259,684)	(213,287)	(211,390)
Nonoperating revenues					
State appropriations	273,839	257,456	253,909	250,536	246,631
Gifts	77,056	74,918	61,138	56,229	64,826
Investment income	94,839	46,628	19,877	95,824	62,661
Other net nonoperating revenue (expense)	(18,795)	22,475	17,312	22,477	40,813
Total nonoperating revenues	426,939	401,477	352,236	425,066	414,931
Income before capital and permanent endowment additions	164,399	107,210	92,552	211,779	203,541
Capital and permanent endowment additions	50,192	79,529	291,527	58,649	63,794
Increase in net position	214,591	186,739	384,079	270,428	267,335
Net Position - beginning of year (as adjusted)	3,899,724	3,712,985	3,401,900	3,131,472	2,864,137
Net Position - end of year	$4,114,315	$3,899,724	$3,785,979	$3,401,900	$3,131,472

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

Grant and Contract revenues decreased from the prior year, primarily due to final expiring ARRA projects in the first half of this fiscal year and decreases in sponsored project funding at the federal, state, and local levels, and from nongovernmental entities. The continuing effects of federal sequestration impacted domestic spending, including money granted by federal agencies. Grant and contract revenues have increased 6.1% over the periods shown.

Sales and services revenue increased 6.3% from the prior year, and also maintained a consistent upward trend for the periods shown – increasing 17.4%. 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 7.4% and 31.6%, from the prior year and for the periods shown, respectively.

Operating expenses, have increased as well; 5.8% over the prior year and 31% for the periods shown. 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 below in *Figure 3*:

As a public university, the University of Utah receives funds from a variety of sources in support of its operations. While the Statement of Revenues, Expenses, and Changes in Net 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.

State appropriations increased 6.4% from the prior year funding modest compensation increases and increasing the medical school class size. Investment income increased 103% compared to the prior year due to global stock and bond market performance and active University management.

Interest and other expenses increased from the prior year primarily due to an increase in bonds and corresponding interest expense and increased interest expense arising from bond refundings.

STATEMENT OF CASH FLOWS

A condensed version of the Statement of Cash Flows is shown in *Figure 4* on page 13.

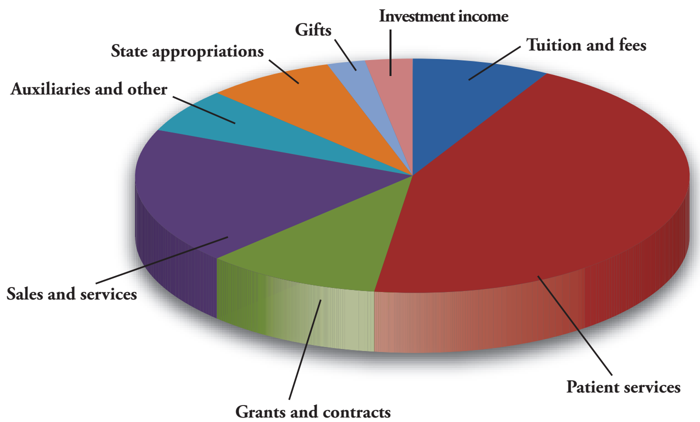
Cash flows from operations primarily consist of tuition and fees, patient services, grants and contracts, and auxiliaries. Significant sources of cash provided by noncapital financing activities, as defined by GASB, include state appropriations, federal Pell grants and private gifts funds.

Cash increased 24.9% from the prior year. The majority of the balance and increase relate to University of Utah Health Care. The cash increase was driven primarily by clinical revenues from the delivery of healthcare services to an expanded base of patients by faculty clinicians in the School of Medicine. The clinical enterprise continues to make strong progress in building cash reserves toward the Moody's median level of days' cash on hand for academic health centers. The

Figure 3

Total expenses	**2014**	**2013**	**2012**	**2011**	**2010**
Operating expenses					
Compensation and benefits	$1,789,054	$1,695,719	$1,581,667	$1,480,663	$1,413,344
Component units	381,829	365,502	356,355	356,599	347,731
Supplies	374,681	339,244	328,922	306,491	292,367
Depreciation and amortization	198,696	186,679	171,867	139,935	131,965
Other	641,931	614,767	520,819	463,239	398,837
Total operating expenses	3,386,191	3,201,911	2,959,630	2,746,927	2,584,244
Nonoperating expenses					
Interest and other	65,070	33,210	36,180	35,364	35,794
Total expenses	$3,451,261	$3,235,121	$2,995,810	$2,782,291	$2,620,038

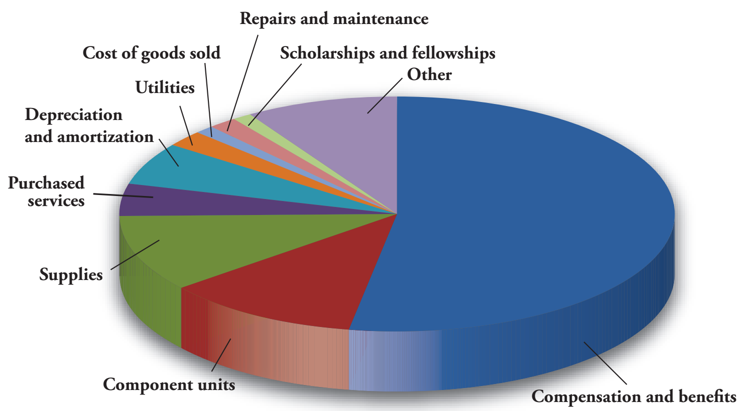
The graph below shows the various types of funding available to support the operations of the University:



Sources of Revenue in Support of Operations
For the Year Ended June 30, 2014

Tuition and fees	$291,184
Patient services	1,579,004
Grants and contracts	364,975
Sales and services	671,311
Auxiliaries and other	217,177
State appropriations	273,839
Gifts	77,056
Investment income	94,839

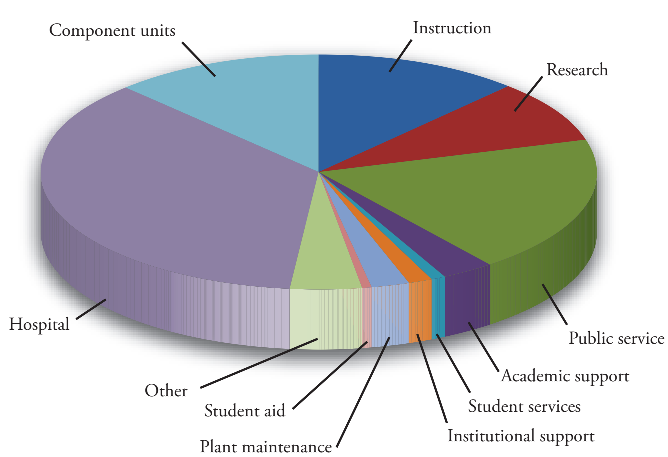
A graphical presentation of the University's operating expenses appears below:



Operating Expenses
For the Year Ended June 30, 2014

Compensation and benefits	$1,789,054
Component units	381,829
Supplies	374,681
Purchased services	129,347
Depreciation and amortization	198,696
Utilities	75,399
Cost of goods sold	35,098
Repairs and maintenance	39,354
Scholarships and fellowships	30,861
Other	331,872

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



Functional Classification of Operating Expenses
For the Year Ended June 30, 2014

Instruction	$409,331
Research	295,132
Public service	636,524
Academic support	98,610
Student services	29,939
Institutional support	50,621
Plant maintenance	73,198
Student aid	15,281
Other	148,761
Hospital	1,220,741
Component units	408,053

Figure 4. Statement of Cash Flows					
Condensed Statement of Cash Flows – for the years ended June 30 (in thousands)	**2014**	**2013**	**2012**	**2011**	**2010**
Cash flows from (to):					
Operating activities	($39,872)	($51,985)	($97,275)	($69,708)	($88,110)
Noncapital financing activities	386,924	387,525	373,559	370,417	385,873
Capital and related financing activities	(137,461)	(232,193)	(217,177)	(159,856)	(103,936)
Investing activities	(75,814)	11,109	(198,791)	(46,417)	108
Net increase (decrease) in cash	133,777	114,456	(139,684)	94,436	193,935
Cash - beginning of year	537,271	422,815	562,499	468,063	274,128
Cash - end of year	$671,048	$537,271	$422,815	$562,499	$468,063

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:

- Some key construction projects were completed including the Beverly Taylor Sorenson Arts and Education Building; and the Spence and Cleone Eccles Football Center (formerly the Dee Glen Smith Athletic Center). Ongoing projects include the ambulatory care wing of the University Hospital; the S.J. Quinney College of Law; the George S. Eccles Student Life Center; Dental Education Building; Health Care Medical Services Building; and the Kennecott Building Expansion & Renovation. All of the current projects will be completed over the next several years.

- General Revenue Bonds Series 2013A in the amount of $127,925,000 were issued on July 30, 2013. Proceeds from the bonds are being used to construct the George S. Eccles Student Life Center, the Jon M. and Karen Huntsman Basketball Training Center, the S.J. Quinney College of Law, and two parking structures.

- Taxable Commercial Paper General Revenue Refunding Notes in the amount of $100,000,000 were issued on July 30, 2013. Proceeds from these notes were used to refund certain of the University's outstanding bonds.

- General Revenue Bonds Series 2014A in the amount of $32,785,000 were issued April 1, 2014. Proceeds from the bonds were used to refund certain Hospital and Research Facilities Bonds.

- General Revenue Bonds Series 2014B in the amount of $76,200,000 were approved but not issued until July 15, 2014. Proceeds from these bonds will be used to refund certain Hospital bonds, and to help fund construction projects including the Lassonde Living Learning Center and utility infrastructure.

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 2014 decreased 1% from Fall 2013. 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 fiscal year 2013, 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 was a major reason for the decline in undergraduate enrollment for Fall 2013 and 2014. We believe this may impact undergraduate enrollment through fiscal year 2015 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 2014 legislative session, the University's recurring budget for 2014-2015 was increased by 3.2% compared to 2013-2014 which included funding to increase salaries as well as mission-based initiatives. The economic growth in Utah is expected to continue during 2014 with job growth forecast to increase at 3.5% for the year, with larger increases as the year progresses. Unemployment in Utah was 3.6% at the end of August 2014 as compared to 6.1% nationally. We are optimistic that the 2015 legislative session will provide additional increases in funding.

The capital campaign, *Together We Reach,* concluded as of June 30, 2014 with a total of $1.6 billion raised. This total included $514 million in support of research, $363 million in support of facilities, and $261 million in support of public programs. During fiscal year 2014, the University raised $201 million with $79 million in support of research, $29 million in support of facilities, and $41 million in support of public programs. The University continues to benefit from the generosity of its donors and supporters. 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, it anticipates constrained research funding in future years.

The University continues to exercise a prudent 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 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, 2014

ASSETS	
Current Assets	
Cash and cash equivalents (Notes 2 & 4)	$ 536,959
Short-term investments (Notes 2 & 4)	602,423
Receivables, net (Note 5)	341,400
Inventory (Note 1)	53,795
Other assets (Note 6)	20,280
Total current assets	1,554,857
Noncurrent Assets	
Restricted cash and cash equivalents (Notes 2 & 4)	134,089
Restricted short-term investments (Notes 2 & 4)	490
Investments (Notes 3 & 4)	774,986
Restricted investments (Notes 3 & 4)	496,087
Restricted receivables, net (Note 5)	54,775
Donated property held for sale	3,289
Other assets (Note 6)	36,334
Capital assets, net (Note 7)	2,412,729
Total noncurrent assets	3,912,779
Total assets	5,467,636
DEFERRED OUTFLOW OF RESOURCES	
Deferred loss on bond refunding (Note 1)	3,310
Total deferred outflow of resources	3,310
LIABILITIES	
Current Liabilities	
Accounts payable (Note 5)	
to the State of Utah	27,724
to Others	105,970
Accrued payroll	103,370
Compensated absences and early retirement benefits (Notes 1 & 15)	60,000
Unearned revenue (Note 9)	54,310
Deposits and other liabilities (Notes 11 & 15)	90,888
Bonds, notes and contracts payable (Notes 14, 15, & 16)	
to the State of Utah (HCH Phase II Lease)	3,425
to Others	136,505
Total current liabilities	582,192
Noncurrent Liabilities	
Compensated absences and early retirement benefits (Notes 1 & 15)	8,383
Deposits and other liabilities (Notes 11 & 15)	14,740
Bonds, notes and contracts payable (Notes 14, 15, & 16)	
to the State of Utah (HCH Phase II Lease)	96,870
to Others	654,446
Total noncurrent liabilities	774,439
Total liabilities	$1,356,631

Continued on next page…

The accompanying notes are an integral part of these financial statements

(in thousands of dollars)

As of June 30, 2014

NET POSITION	
Net investment in capital assets	$1,633,385
Restricted for	
Nonexpendable	
Instruction	169,404
Research	46,641
Public service	77,422
Academic support	43,276
Scholarships	157,301
Other	7,863
Expendable	
Research	76,269
Public service	124,234
Academic support	37,679
Institutional support	15,964
Scholarships	64,809
Loans	34,565
Capital additions	93,377
Other	75,147
Unrestricted	1,456,979
Total net position	$4,114,315

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, 2014

OPERATING REVENUES AND EXPENSES	
Revenues	
Tuition and fees, net (Note 1)	$ 291,184
Patient services, net (Notes 1 & 13)	1,579,004
Federal grants and contracts	246,175
State and local grants and contracts	19,313
Nongovernmental grants and contracts	99,487
Sales and services, net (Note 1)	671,311
Auxiliary enterprises, net (Note 1)	120,294
Other operating revenues	96,883
Total operating revenues	3,123,651
Expenses	
Compensation and benefits	1,789,054
Component units	381,829
Supplies	374,681
Purchased services	129,347
Depreciation and amortization	198,696
Utilities	75,399
Cost of goods sold	35,098
Repairs and maintenance	39,354
Scholarships and fellowships	30,861
Other operating expenses	331,872
Total operating expenses	3,386,191
Operating loss	(262,540)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	273,839
Government grants	46,275
Gifts	77,056
Investment income	94,839
Interest	(42,090)
Other nonoperating revenues (expenses)	(22,980)
Total nonoperating revenues	426,939
Income before capital and permanent endowment additions	164,399
CAPITAL AND PERMANENT ENDOWMENT ADDITIONS	
Capital appropriations	13,762
Capital grants and gifts	19,529
Additions to permanent endowments	16,901
Total capital and permanent endowment additions	50,192
Increase in net position	214,591
NET POSITION	
Net position - beginning of year	3,899,724
Net position - end of year	$4,114,315

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tuition and fees	$ 294,156
Receipts from patient services	1,570,629
Receipts from grants and contracts	371,204
Receipts from auxiliary and educational services	789,880
Collection of loans to students	7,240
Payments to suppliers	(1,352,999)
Payments for compensation and benefits	(1,790,757)
Payments for scholarships and fellowships	(30,861)
Loans issued to students	(7,614)
Other	109,250
Net cash used by operating activities	(39,872)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	273,839
Government grants	46,275
Federal direct loan receipts	134,637
Federal direct loan payments	(134,637)
Gifts	
Endowment	17,115
Nonendowment	71,709
Other	(22,014)
Net cash provided by noncapital financing activities	386,924
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	273,867
Capital appropriations	12,752
Gifts	18,167
Purchase of capital assets	(223,169)
Principal paid on capital debt	(177,028)
Interest paid on capital debt	(42,050)
Net cash used by capital and related financing activities	(137,461)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	1,164,653
Receipt of interest and dividends on investments	19,890
Purchase of investments	(1,260,357)
Net cash used by investing activities	(75,814)
Net increase in cash	133,777
Cash - beginning of year	537,271
Cash - ending of year	$ 671,048

Continued on next page…

The accompanying notes are an integral part of these financial statements

(in thousands of dollars)

For the Year Ended June 30, 2014

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	$ (262,540)
Adjustments	
Depreciation and amortization expense	198,696
Change in assets and liabilities	
Receivables, net	286
Inventory	852
Other assets	12,955
Accounts payable	774
Accrued payroll	(5,820)
Compensated absences and early retirement benefits	4,117
Deferred revenue	4,295
Deposits and other liabilities	6,513
Net cash used by operating activities	$ (39,872)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Capital leases	$ 30,899
Donated property and equipment	11,340
Completed construction projects transferred from State of Utah (Note 1)	1,010
Annuity and life income	1,007
Increase in fair value of investments	74,949
Total noncash investing, capital, and financing activities	$119,205

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).

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. University administrators hold a majority of seats on the boards of trustees of two other related entities representing component units of the University. Because the University appoints the majority of the two boards, is able to impose its will on these organizations, and the organizations almost exclusively benefit the University, the financial accountability criteria as defined by Governmental Accounting Standards Board (GASB) Statement No. 61, have been met and the two organizations are included as blended component units of the University. The component units of the University are the University of Utah Research Foundation (UURF) and ARUP Laboratories, Inc. (ARUP). Copies of the financial report of each component unit can be obtained from the respective entity.

- UURF is a not-for-profit corporation governed by a board of directors who, with the exception of one, are affiliated with the University. The operations of UURF include the leasing and administration of Research Park (a research park located on land owned by the University), the leasing of certain buildings, and the commercial development of patents and products developed by University personnel. As part of its mission to advance technology commercialization, UURF creates new corporate entities to facilitate the startup process. In general, these entities do not have assets. Expenses related to the companies are expensed as incurred. The fiscal year end for UURF is June 30. UURF is audited by other independent auditors and their report, dated October 15, 2014, 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 29, 2014, has been issued under separate cover.

All GASB pronouncements are applied by the University, UURF, and ARUP in the accounting and reporting of their operations.

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, 2014 and 2013:

Revenue Allowance	2014	2013
Tuition and fees	$52,384,797	$46,802,903
Patient services	87,386,941	90,690,617
Sales and services	226	472
Auxiliary enterprises	2,158,964	1,377,661

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, 2014, were approximately $10,303,000.

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, 2014, was approximately $33,726,000.

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, 52 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 0.520% 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, 2014, these expenditures were approximately $1,243,000.

Employees of UUHC 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 up to 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, 2014, was approximately $32,505,000.

H. Construction

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

I. Deferred Outflows

In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, losses incurred due to refunding of bond debt are reported as deferred outflows rather than as bond liabilities.

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 Treasurers' Investment Fund (PTIF) which is managed in accordance with the State Money Management Act (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, 2014, cash and cash equivalents and short-term investments consisted of:

Cash and Cash Equivalents	
Cash	$(27,977,117)
Money market funds	287,381,286
Time certificates of deposit	29,649,412
Repurchase agreements	38,400,000
Utah Public Treasurers' Investment Fund	328,595,122
U.S. Agencies	14,999,520
Total (fair value)	$671,048,223

Short-term Investments	
U.S. Treasuries	$ 85,058,480
U.S. Agencies	504,000,021
Corporate notes	13,854,527
Total (fair value)	$602,913,028

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, 2014.

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, 2014, 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, 2014, was approximately $145,010,000. The net appreciation is a component of restricted expendable net position.

At June 30, 2014, the investment portfolio composition was as follows:

Investments	
Time certificates of deposits	$ 1,492,226
U.S. Treasuries	54,910,170
U.S. Agencies	454,495,699
Municipal bonds	4,190,900
Corporate notes	35,265,485
Mutual funds	707,680,385
Common and preferred stocks	13,038,564
Total (fair value)	$1,271,073,429

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, 2014, the carrying amounts of the University's deposits and bank balances were $21,400,088 and $36,576,365, respectively. The Federal Deposit Insurance Corporation (FDIC) provides deposit insurance coverage up to $250,000 for demand deposits and $250,000 for time and savings deposits at each banking institution. As a result, the bank balances of the University were insured for $1,000,000, by the FDIC. The bank balances in excess of $1,000,000 were uninsured and uncollateralized, leaving $35,576,365 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, 2014, the University had debt investments with maturities as shown in *Figure 1*.

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

At June 30, 2014, the University had debt investments with quality ratings as shown in *Figure 2.*

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of its investments 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

Figure 1.		**Investment Maturities (in years)**			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
Money market mutual funds	$ 286,963,966	$ 286,963,966			
Repurchase agreements	38,400,000	38,400,000			
Utah Public Treasurers' Investment Fund	328,595,122	328,595,122			
Time certificates of deposit	1,492,226		$ 1,492,226		
U.S. Treasuries	139,968,650	85,058,480	54,910,170		
U.S. Agencies	973,495,240	518,999,541	335,234,840	$ 119,260,859	
Corporate notes	49,120,012	13,854,527	35,265,485		
Municipal bonds	4,190,900		446,634	532,176	$3,212,090
Mutual bond funds	208,870,367		22,945,974	185,924,393	
Totals	$2,031,096,483	$1,271,871,636	$450,295,329	$305,717,428	$3,212,090

Figure 2.			**Quality Rating**			
Investment Type	**Fair Value**	**AAA/A-1**	**AA**	**A**	**Unrated**	**No Risk**
Money market mutual funds	$ 286,963,966	$ 24,755,060			$262,208,906	
Repurchase agreements – underlying:						
U.S. Agencies	38,400,000		$ 38,400,000			
Utah Public Treasurers' Investment Fund	328,595,122				328,595,122	
Time certificates of deposit	1,492,226				1,492,226	
U.S. Treasuries	139,968,650					$139,968,650
U.S. Agencies	973,495,240	518,999,541	454,495,699			
Corporate notes	49,120,012			$49,120,012		
Municipal bonds	4,190,900	3,212,090	978,810			
Mutual bond funds	208,870,367		82,473,123		126,397,244	
Totals	$2,031,096,483	$546,966,691	$576,347,632	$49,120,012	$718,693,498	$139,968,650

represented by a receipt, confirmation, or statement issued by the custodial bank.

At June 30, 2014, the University's custodial bank was both the custodian and the investment counterparty for $1,108,641,422 of U.S. Treasury and Agency securities purchased by the University and $4,822,468 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, 2014, the University held more than 5% of its total investments in the Federal Home Loan Bank, the Federal Farm Credit Bank, and the Wells Fargo Cash Investment Select Money Management Fund. These investments represent 28.5%, 6.1%, and 10.2%, 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, 2014, including approximately $93,500, $23,447,000 and $31,535,000 of noncurrent notes, loans, and pledges receivable, respectively:

Accounts	$529,143,230
Grants and contracts	35,756,829
Loans	31,660,848
Pledges	34,408,631
Notes	416,736
Interest	2,444,524
	633,830,798
Less allowances for doubtful accounts	(237,655,998)
Receivables, net	$396,174,800

The following schedule presents the major components of accounts payable at June 30, 2014:

Vendors	$66,267,603
Interest	9,865,415
Payable to State	27,723,740
Other	29,837,478
Total accounts payable	$133,694,236

6. OTHER ASSETS

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, 2014 balance of prepaid rent to the State was $37,450,837.

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 extends 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, 2014, the University had outstanding commitments for the construction and remodeling of University buildings of approximately $22,572,000.

Capital assets at June 30, 2014, are shown in *Figure 3.*

8. PENSION PLANS AND RETIREMENT BENEFITS

As required by State law, eligible nonexempt employees (as defined by the U.S. Fair Labor Standards Act) of the University are covered by either the Utah State and School Contributory or Noncontributory or the Public Safety

Figure 3.	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	$2,533,029,468	$149,042,346		$2,682,071,814
Infrastructure and improvements	303,527,876	8,420,155	$ 1,724,913	310,223,118
Land	27,204,744	10,528,112		37,732,856
Equipment (including intangibles)	898,528,416	91,558,087	48,484,681	941,601,822
Library materials	161,298,329	1,502,931	18,988,285	143,812,975
Art and special collections	62,452,267	1,889,932	16,800	64,325,399
Construction in progress	157,852,151	208,259,282	178,378,504	187,732,929
Total cost	4,143,893,251	471,200,845	247,593,183	4,367,500,913
Less accumulated depreciation				
Buildings	917,305,393	90,661,776		1,007,967,169
Infrastructure and improvements	151,281,247	17,083,782	704,705	167,660,324
Equipment	611,314,916	85,454,450	41,353,267	655,416,099
Library materials	118,985,196	4,742,978		123,728,174
Total accumulated depreciation	1,798,886,752	197,942,986	42,057,972	1,954,771,766
Capital assets, net	$2,345,006,499	$273,257,859	$205,535,211	$2,412,729,147

Noncontributory Retirement Systems and eligible exempt employees (as defined by the U.S. Fair Labor Standards Act) are covered by the Teachers Insurance and Annuity Association—College Retirement Equities Fund (TIAA-CREF), 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 15.97% 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 20.46% (with an additional 1.50% to a 401(k) salary deferral program) and 39.31%, 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, 2014, 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 2014 was approximately $51,805,000.

The ARUP defined contribution pension and profit sharing plans provide retirement benefits

Figure 4.	2014	2013	2012
State and School Contributory Retirement System	$ 3,114,525	$ 2,642,720	$ 2,132,243
State and School Noncontributory Retirement System	23,007,991	23,851,120	28,747,171
Public Safety Contributory Retirement System	12,613	8,581	3,929
Public Safety Noncontributory Retirement System	484,024	468,111	427,891
TIAA-CREF	74,524,653	68,212,455	71,089,310
Fidelity	43,161,360	35,048,897	27,482,030
Pension plan	10,732,980	10,375,206	10,398,691
Profit sharing plan	8,735,146	9,524,520	9,468,399
Total contributions	$163,773,292	$150,131,610	$149,749,664

for all employees. Employees may choose to pay into the federal social security tax system or to participate in an enhanced ARUP retirement program. For those who choose to continue to pay social security taxes, ARUP makes contributions each pay period amounting to 5.00% of their compensation and ARUP continues to make matching social security tax contributions. For those who discontinue paying social security taxes, ARUP makes contributions each pay period amounting to 8.10% of their compensation and do not have any social security tax contributions made by ARUP on their behalf. There are no minimum service and vesting requirements relating to pension contributions.

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

For the years ended June 30, 2014, 2013, and 2012, the University's contributions to the Systems were equal to the required amounts, as shown in *Figure 4*.

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, 2014, was $120,879,634.

In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of $13,254,780 as of June 30, 2014, based on a predetermined formula. The fair value of this stock as of June 30, 2014 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, 2014, is adequate to cover any claims incurred through that date. The University and UUHC have a "claims made" umbrella malpractice insurance policy in an amount considered adequate by its respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances.

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

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

The University has recorded the investments of the malpractice liability trust funds at June 30, 2014, 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.

Figure 5.	**2014**	**2013**
Estimated claims liability - beginning of year	$ 53,834,331	$ 52,763,226
Current year claims and changes in estimates	153,451,077	169,535,732
Claim payments, including related legal and administrative expenses	(156,736,391)	(168,464,627)
Estimated claims liability - end of year	$ 50,549,017	$ 53,834,331

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, 2014, were approximately $39,441,000.

14. LEASES

A. Revenue

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

At June 30, 2014, the historical cost of land and buildings held for lease and the related accumulated depreciation were $77,152,933 and $20,544,059, 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 $89,448,936 and $59,195,052 for buildings and equipment, respectively. Accumulated depreciation for these buildings and equipment amounts to $8,735,436 and $16,737,558, 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 $19,123,253 for the University and $6,252,006 for component units for the year ended June 30, 2014. Total operating lease commitments for the University include approximately $6,551,181 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, 2014 were $5,962,705.

Future minimum lease commitments for operating and capital leases as of June 30, 2014 are shown in *Figure 6*.

Figure 6.

Fiscal Year	Operating	Capital
2015	$ 27,399,617	$ 13,516,221
2016	20,569,889	13,279,740
2017	15,126,973	12,777,553
2018	12,062,125	11,944,797
2019	14,829,723	7,009,730
2020 – 2024	34,280,225	57,772,241
2025 – 2029	14,868,909	53,600,698
2030 – 2034	4,541,300	12,392,842
2035 – 2039	1,492,064	
2040 – 2044	1,452,463	
2045 – 2049	1,428,256	
Total future minimum lease payments	$148,051,544	182,293,822
Amount representing interest		(43,271,054)
Present value of future minimum lease payments		$139,022,768

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.

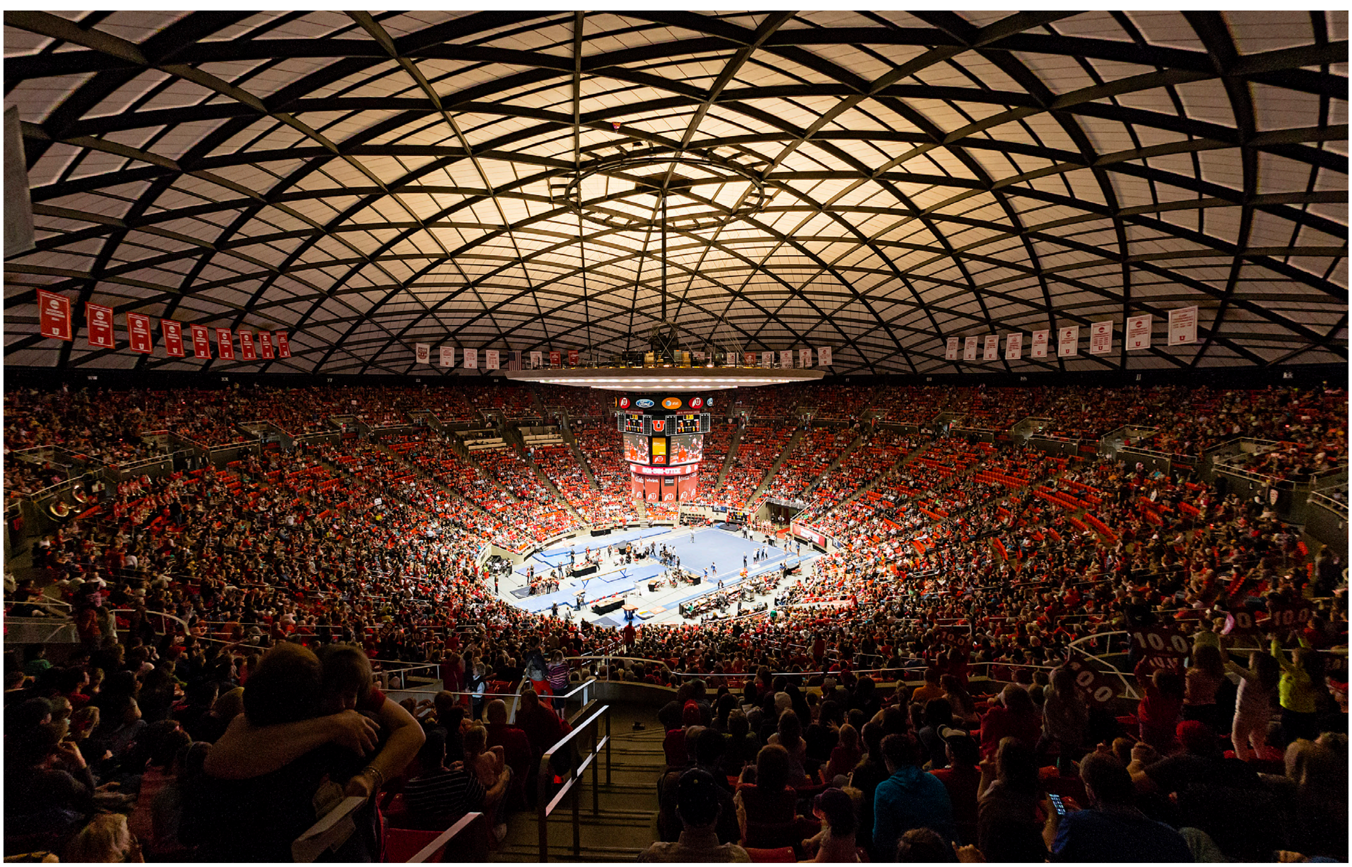
The State Board of Regents issues revenue bonds to provide funds for the construction and renovation of major capital facilities and the acquisition of capital equipment for the University. In addition, revenue bonds have been issued to refund other revenue bonds and capitalized leases.

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, 2014, is $1,840,000.

During fiscal year 2014, the University issued two new bond series. The first was the General Revenue Bonds Series 2013A in the amount of $127,925,000 issued on July 30, 2013, for construction of 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. The second series was the General Revenue Refunding Bonds Series 2014A-1 and Series 2014A-2 in the amount of $32,785,000 issued on April 1, 2014 to partially refund Hospital Revenue Refunding Bonds Series 2006A and to fully refund Research Facilities Revenue Bonds Series 2004A and Series 2005A.

In addition, the University issued Taxable Commercial Paper General Revenue Refunding Notes Series 2013B in the amount of $100,000,000 on July 30, 2013. 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 is obtained through issuance of long-term bonds. The balance due at June 30, 2014 is $100,000,000 and is all due within the next fiscal year. Proceeds from these notes were used to partially refund Hospital Revenue and Refunding Bonds Series 2006A, Hospital Revenue Bonds Series 2010 and Series 2011B, Auxiliary and Campus Facilities Revenue Refunding Bonds Series 2010A, Auxiliary and Campus Facilities Revenue Bonds Series 2012A and to fully refund Hospital Revenue Refunding Bonds Series 2005A and Auxiliary and Campus Facilities Revenue Refunding Bonds Series 2005A.



The schedule shown in *Figure 7* lists the outstanding bonds payable and certificates of participation of the University at June 30, 2014.

Figure 7.

Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2014(a)
Auxiliary and Campus Facilities						
Series 1998A - Revenue Refunding	7/1/98	2029	4.100% - 5.250%	$120,240,000	$ 31,213	$ 31,040,065
Series 2010A - Revenue Refunding	5/11/10	2024	2.000% - 5.000%	23,515,000	141,191	22,426,525
Series 2010B - Revenue	12/28/10	2015	5.000%	2,570,000	1,372,282	1,372,282
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	1,885,328	41,319,614
Hospital Facilities						
Series 2006A - Revenue Refunding	10/26/06	2032	4.000% - 5.250%	77,145,000	971,523	39,128,560
Series 2009A - Revenue	12/17/09	2017	4.000% - 5.000%	9,135,000	2,133,981	6,569,490
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	1,675,433	28,265,524
Series 2011A - Revenue Refunding	5/24/11	2026	3.600%	20,145,000	1,070,000	17,550,000
Series 2011B - Revenue Refunding	7/28/11	2032	3.350% - 5.000%	66,480,000	142,896	46,619,832
Research Facilities						
Series 2005B - Refunding	6/7/05	2020	3.000% - 5.000%	20,130,000	1,130,064	7,706,869
Series 2008A - Revenue Refunding	10/7/08	2022	3.250% - 5.000%	9,360,000	649,442	6,084,663
Series 2009A - Revenue	8/26/09	2019	4.000% - 5.000%	19,080,000	2,032,929	11,054,577
Series 2009B - Taxable Revenue	8/26/09	2029	5.670% - 6.279%	27,730,000	-	27,730,000
General Revenue						
Series 2013A - Revenue	7/30/13	2043	5.000%	127,925,000	190,048	138,170,858
Series 2014A - Revenue Refunding	4/1/14	2027	4.000% - 5.000%	32,785,000	390,941	38,774,622
Certificates of Participation						
Series 2007	4/3/07	2027	4.000% - 5.500%	42,450,000	1,886,052	33,385,124
Total					$15,703,323	$580,318,605

(a) Includes unamortized premiums and losses on refunding.

UURF has purchased three buildings with two mortgages that are guaranteed by the University. The remaining amounts of the mortgages are $3,574,558 at 8.87% interest and $1,868,202 at 7.15% interest. The mortgages will be paid off on April 1, 2020 and September 1, 2021, respectively.

The schedule shown in *Figure 8* summarizes the changes in long-term liabilities for the year ended June 30, 2014.

Figure 8.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$520,053,080	$177,177,426	$150,297,025	$ 546,933,481	$ 13,817,271
Certificates of participation	35,181,258		1,796,134	33,385,124	1,886,052
Capital leases payable	116,009,805	30,898,995	7,886,032	139,022,768	8,899,854
Notes and contracts payable	87,946,644	101,233,570	17,275,432	171,904,782	115,327,144
Total long-term debt	759,190,787	309,309,991	177,254,623	891,246,155	139,930,321
Compensated absences	64,266,109	57,155,632	53,038,657	68,383,084	60,000,271
Deposits & other liabilities	101,400,072	89,214,970	84,987,041	105,628,001	90,887,799
Total long-term liabilities	$924,856,968	$455,680,593	$315,280,321	$1,065,257,240	$290,818,391

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

Payments		
Fiscal Year	Principal	Interest
2015	$139,930,321	$ 34,509,982
2016	41,316,511	33,482,235
2017	39,639,677	32,055,702
2018	33,251,809	30,826,977
2019	41,079,359	29,382,501
2020 – 2024	226,791,790	118,241,860
2025 – 2029	186,715,810	68,873,906
2030 – 2034	66,468,755	33,332,361
2035 – 2039	25,744,538	27,019,351
2040 – 2044	90,307,585	14,399,625
Total	$891,246,155	$422,124,500

Interest related to bond systems with pledged revenues amounts to $351,383,427 and is included in the interest amounts in the above schedule.

16. RETIREMENT OF DEBT

In the current and 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, 2014, is $118,825,000.

The University issued Taxable Commercial Paper General Revenue Refunding Notes Series 2013B in the amount of $100,000,000 on July 30, 2013 and the General Revenue Refunding Bonds Series 2014A-1 and Series 2014A-2 in the amount of $32,785,000 on April 1, 2014 to either fully or partially refund various bond issues as described in Note 15. These refundings had no impact on the retirement period but did result in a reduction of aggregate debt service payments of $68,373,312 and a present value economic gain of approximately $62,004,008.

17. FUNCTIONAL CLASSIFICATION OF EXPENSES

The schedule shown in *Figure 9* presents, in thousands of dollars, operating expenses by functional classification for the year ended June 30, 2014.

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 general revenue of the University for the retirement of outstanding bonds payable.

Figure 10, on page 37 presents the net revenue pledged and the principal paid and interest expense for the year ended June 30, 2014.

Figure 9.

Function	Compensation & Benefits	Supplies & Services	Utilities	Scholarships & Fellowships	Depreciation & Amortization	Component Units	Total
Instruction	$ 313,933	$ 44,629	$ 2,016	$48,753			$ 409,331
Research	195,126	94,168	2,529	3,309			295,132
Public service	527,177	80,471	26,535	1,588	$ 753		636,524
Academic support	71,755	26,002	666	187			98,610
Student services	20,458	8,293	530	658			29,939
Institutional support	53,123	(9,501)	5,753	1,246			50,621
Plant maintenance	28,597	27,960	16,641				73,198
Student aid	4,905	38,485	16	(28,125)			15,281
Other	43,401	(15,694)	6,648	3,246	111,160		148,761
Hospital	526,160	615,539	14,065		64,977		1,220,741
Component Units	4,418				21,806	$381,829	408,053
Total	$1,789,053	$910,352	$75,399	$30,862	$198,696	$381,829	$3,386,191

Figure 10.	
Revenue	
Operating revenue	$2,084,617,201
Nonoperating revenue	95,376,306
Total revenue	2,179,993,507
Expenses	
Operating expenses	1,876,622,661
Total expenses	1,876,622,661
Net pledged revenue	$303,370,846
Principal paid and interest expense	$39,546,667

19. JOINT VENTURES

The Utah Education Network (UEN) is a publicly funded consortium administered by the University supporting educational technology needs for Utah's public and higher education institutions, public libraries, and state agencies. UEN provides internet access for all Utah public middle schools, high schools, and higher education institutions. UEN also operates a fully interactive distance learning network interconnecting public schools and higher education institutions statewide. State appropriation support of UEN amounted to $18,642,300 for the year ended June 30, 2014. 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, 2014, the University had committed, but not paid, a total of $31,990,198 in funding for these alternative investments.

21. BLENDED COMPONENT UNITS

The schedules shown in *Figure 11, 12, and 13* 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, 2014.

22. SUBSEQUENT EVENTS

On July 15, 2014, the University issued $76,200,000 of General Revenue and Refunding Bonds Series 2014B. Principal on the bonds is due annually commencing August 1, 2015 through August 1, 2038. Bond interest is due semiannually commencing February 1, 2015 at rates ranging from 2.00% to 5.00%. Proceeds from these bonds are to be used to construct the Lassonde Living Learning Center, partially replace utility distribution infrastructure and to refund a portion of the Hospital Revenue and Refunding Bonds Series 2006A.

Figure 11.	Condensed Statement of Net Position		
	UURF	ARUP	Total
ASSETS			
Current assets:			
Receivable from University	$ 212,847	$ 4,490,727	$ 4,703,574
Other	16,169,311	283,308,558	299,477,869
Capital assets, net	57,005,979	120,360,648	177,366,627
Other noncurrent assets	3,282,967	552,082	3,835,049
Total assets	76,671,104	408,712,015	485,383,119
LIABILITIES			
Current liabilities:			
Payable to University		6,394,146	6,394,146
Other	10,803,736	41,339,957	52,143,693
Noncurrent liabilities	36,521,805	4,270,068	40,791,873
Total liabilities	47,325,541	52,004,171	99,329,712
NET POSITION			
Net investment in capital assets	18,362,562	120,360,648	138,723,210
Unrestricted	10,983,001	236,347,196	247,330,197
Total net position	$29,345,563	$356,707,844	$386,053,407

Figure 12.	Condensed Statement of Revenues, Expenses, and Changes in Net Position		
	UURF	**ARUP**	**Total**
OPERATING REVENUES			
Leases	$ 12,964,833		$ 12,964,833
Royalties	14,770,457		14,770,457
Sales and services	10,521,118	$461,405,456	471,926,574
Net increase in fair value of investments	173,443		173,443
Total operating revenues	38,429,851	461,405,456	499,835,307
OPERATING EXPENSES			
Operating expenses	23,753,703	378,445,395	402,199,098
Depreciation	1,886,761	19,918,821	21,805,582
Total operating expenses	25,640,464	398,364,216	424,004,680
Operating income	12,789,387	63,041,240	75,830,627
NONOPERATING REVENUES (EXPENSES)			
Investment income	4,803	1,961,437	1,966,240
Interest expense	(2,347,625)		(2,347,625)
Distributions to the University	(2,597,308)	(54,313,816)	(56,911,124)
Total nonoperating expenses	(4,940,130)	(52,352,379)	(57,292,509)
Net increase in net position	7,849,257	10,688,861	18,538,118
NET POSITION			
Net position – beginning of year	21,496,306	346,018,983	367,515,289
Net position – end of year	$29,345,563	$356,707,844	$386,053,407

Figure 13.	Condensed Statement of Cash Flows		
	UURF	**ARUP**	**Total**
Net cash provided by operating activities	$16,138,041	$ 88,861,103	$104,999,144
Net cash provided/(used) by noncapital financing activities	1,050,167	(54,322,302)	(53,272,135)
Net cash used by capital and related financing activities	(5,067,210)	(23,967,886)	(29,035,096)
Net cash used by investing activities	(643,148)	(29,079,149)	(29,722,297)
Net increase (decrease) in cash	11,477,850	(18,508,234)	(7,030,384)
Cash – beginning of year	3,621,800	26,867,394	30,489,194
Cash – end of year	$ 15,099,650	$ 8,359,160	$ 23,458,810

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