2018

ANNUAL FINANCIAL REPORT

THE UNIVERSITY OF UTAH

A COMPONENT UNIT OF THE STATE OF UTAH

THE UNIVERSITY OF UTAH


UTAH
UTAH

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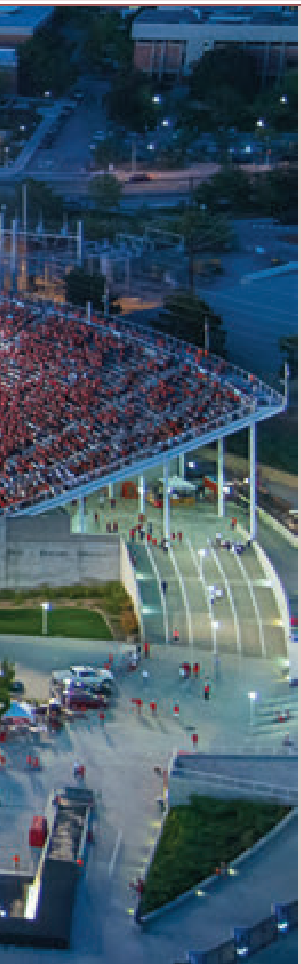


Message from the President
Ruth V. Watkins

Dear colleagues,

I am pleased to present the University of Utah's annual statement for fiscal year 2018. The details of this report demonstrate a consistent and reliable trajectory: the University of Utah is in a strong financial position. It is truly because of the strength of our financial foundation that we continue to move the needle in all aspects of our institution.

As Utah's flagship institution of higher education, we continue to grow in national recognition. This year, we hired more than 150 new faculty who join in our mission to engage in exceptional teaching, groundbreaking research and caring for our community. Across our entire organization, we consistently receive national and international attention for the quality and impact of our research findings and published scholarship. We could not sustain these pioneering research efforts without the tremendous support our faculty generate through external funding. This year, we broke our record as our sponsored project awards totaled more than half a billion dollars.

Student success is at the heart of our mission as a university. Inquisitive, smart, creative students come here to become world-class change agents, innovators and leaders. As our organization has grown, our student population has grown with us. Today, our student body is more diverse. They are more prepared academically. They are graduating sooner and at higher rates. As a top-tier university with tuition among our national peers, we are proud of the quality education we offer our students at a cost they can afford.

University of Utah Health continues to achieve noteworthy success in clinical care, scientific discovery and interdisciplinary education, building on the remarkable momentum of the past seven years. Unlike many academic medical centers across the nation, U of U Health is able to deliver innovative patient care through its proximal connection with the groundbreaking medical and scientific research and education that happen on our health campus. For the past eight years in a row, U of U Health ranked in the top 10 for clinical quality among academic medical centers nationally. With nearly two million patient visits per year and an extensive affiliate network, access to U of U Health is available across the Mountain West. We accomplish all of this as we also develop and train the health care providers of the future.

Our campus facilities also continue to grow, thanks to the generous support of our donors and the Utah Legislature. This year, we celebrated the opening of the newly remodeled Cleone Peterson Eccles Alumni House and the new Carolyn and Kem Gardner Commons. Additionally, we have broken ground on two new clinical facilities—the Ambulatory Care Complex and the Craig H. Neilsen Rehabilitation Hospital. We are grateful for the many donors whose generosity allowed us to create numerous new scholarships, fellowships and endowed positions that benefit our students and faculty.

While we are the University of Utah, we are also the University for Utah. Our firm financial standing gives us the ability to reach into the future, to innovate, to discover, and especially to serve the great people of this state. As President Abraham Lincoln said, "the best way to predict your future is to create it."

It is an honor to work with you to create the future of the University of Utah, for Utah.

Sincerely,

Ruth V. Watkins

Office of the

State Auditor

Independent State Auditor's Report

To the Board of Trustees, Audit Committee
and
Dr. Ruth V. Watkins, 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, 2018, 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 (UUHC), ARUP Laboratories, Inc. (ARUP), University of Utah Research Foundation (UURF), or University of Utah Health Insurance Plans (UUHIP), which represent 33 percent, 26 percent, and 51 percent, respectively, of the assets, net position, and revenues of the University. 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 UUHC, ARUP, UURF, and UUHIP, 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 ARUP 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, 2018, and the changes in its financial position and its 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 and the University's Schedule of Proportionate Share of the Net Pension Liability and Schedule of Defined Benefit Pension Contributions, included in the Required Supplementary Information 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 Governing Boards and Officers are presented for purposes of additional analysis and are not a required part of the basic financial statements. This message and 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 15, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

Office of the State Auditor

Office of the State Auditor
October 15, 2018

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, 2018, 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, deferred inflows of resources, 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 three component units: the University of Utah Research Foundation (UURF), ARUP Laboratories, Inc. (ARUP) and University of Utah Health Insurance Plans (UUHIP). 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) and other buildings. ARUP is a national clinical and esoteric reference laboratory. UUHIP is a licensed non-profit health insurance provider. 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 most comprehensive 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 and graduate level, including law and medicine, to 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 and is nationally ranked. 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 has also received the National Cancer Institute Cancer Center designation.

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, deferred inflows of resources and net position of the University. Net position is one indicator of the current financial condition of the University. Assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally measured using current values except for capital assets, which are stated at historical cost less accumulated depreciation.

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

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

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

STATEMENT OF NET POSITION

A condensed statement of net position for the past five fiscal years is shown in *Figure 1* below:

Figure 1

Condensed Statement of Net Position - as of June 30 (in thousands)[1]	**2018**	**2017**	**2016**	**2015**	**2014**
Current assets	$2,057,009	$1,759,605	$1,687,992	$1,672,391	$1,554,857
Noncurrent assets					
Capital assets, net	3,323,706	2,959,044	2,718,265	2,504,854	2,412,729
Other noncurrent assets	2,108,022	2,068,089	1,887,210	1,726,576	1,500,050
Total Assets	7,488,737	6,786,738	6,293,467	5,903,821	5,467,636
Deferred Outflow of Resources	83,134	76,912	75,957	29,249	3,310
Current liabilities	704,687	685,374	698,355	643,914	582,192
Noncurrent liabilities	1,223,800	1,208,732	1,131,565	1,042,931	774,439
Total Liabilities	1,928,487	1,894,106	1,829,920	1,686,845	1,356,631
Deferred Inflow of Resources	75,898	28,990	17,798	12,810	
Net investment in capital assets	2,320,870	2,037,151	1,784,592	1,641,064	1,633,385
Restricted, nonexpendable	604,497	564,118	524,471	518,706	501,907
Restricted, expendable	757,165	576,934	510,895	449,189	522,044
Unrestricted	1,884,954	1,762,352	1,701,748	1,624,456	1,456,979
Total Net Position	$5,567,486	$4,940,555	$4,521,706	$4,233,415	$4,114,315

[1] As reported in each year's published audited financial statements

Total net position increased 12.7% from the prior year and 35.3% over the periods shown—due to steady growth in most of the operating and nonoperating revenue categories. 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 sensible reserve for contingencies. Capital assets increased 12.3% from the prior year primarily due to the addition of new buildings as well as building construction in progress. Liabilities increased 1.8% from the prior year primarily due to the issuance of two bonds offset by a reduction in the actuarial-determined net pension liability. Deferred Inflows of Resources increased 161.8% due to a change in projected and actual earnings on pension plan investments.

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. 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 6.2% from the prior year—and 19.5% over the periods shown. This upward trend is reflective of the increases in enrollment and the students' increased contribution toward the University's budget.

Patient services revenues increased 0.8% from the prior year; and have increased 39.9% 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 2

Condensed Statement of Revenues, Expenses, and Changes in Net Position – for the years ended June 30 (in thousands)[1]	2018	2017	2016	2015	2014
Operating revenues					
Tuition and fees, net	$ 347,902	$ 327,508	$ 316,373	$ 304,008	$ 291,184
Patient services, net	2,209,201	2,192,329	1,998,637	1,816,284	1,579,004
Grants and contracts	455,950	397,813	367,738	362,634	364,975
Sales and services	991,457	900,958	821,071	740,220	671,311
Auxiliary and other	386,095	333,351	256,998	237,262	217,177
Total operating revenues	4,390,605	4,151,959	3,760,817	3,460,408	3,123,651
Operating expenses	4,585,138	4,364,965	3,965,735	3,703,864	3,386,191
Operating loss	(194,533)	(213,006)	(204,918)	(243,456)	(262,540)
Nonoperating revenues					
State appropriations	335,828	322,050	313,518	287,929	273,839
Gifts	158,773	117,949	90,869	101,312	77,056
Investment income	90,595	91,705	27,104	41,557	94,839
Other net nonoperating revenue (expense)	(7,327)	5,842	(5,889)	11,141	(18,795)
Total nonoperating revenues	577,869	537,546	425,602	441,939	426,939
Income before capital and permanent endowment additions	383,336	324,540	220,684	198,483	164,399
Capital and permanent endowment additions	205,242	94,309	67,607	53,970	50,192
Increase in net position	588,578	418,849	288,291	252,453	214,591
Net Position - beginning of year	4,978,908	4,521,706	4,233,415	3,980,962	3,899,724
Net Position - end of year	$ 5,567,486	$ 4,940,555	$ 4,521,706	$ 4,233,415	$4,114,315

[1] As reported in each year's published audited financial statements

Grants and Contracts revenues increased 14.6% from the prior year due to growth in substantially all major research categories and sponsors' awards. Namely, federal research funding from National Institutes of Health; Department of Energy; Department of Defense; National Science Foundation and Department of Education. Additional research category increases were: Foundations and Associations; State of Utah governmental agencies; other Universities and Institutes of Higher Education; Private Industry; and Hospitals. The increases were partially offset by a net decrease in funding for sponsored research from various Research Institutions.

Sales and services revenue increased 10% from the prior year primarily due to growth in ARUP revenue, UUHC revenue and an increase in UUHIP premium revenue. Sales and services revenue maintained a consistent upward trend for the periods shown—increasing 47.7%. The largest contributor to the increase is growth in ARUP's revenues over the period.

Auxiliary and other income increased 15.8% from the prior year primarily due to revenue from UUHC.

With contributions from these significant sources, total operating revenues have increased 5.7% and 40.6%, from the prior year and for the periods shown, respectively.

Operating expenses have increased as well; 5% over the prior year and 35.4% for the periods shown. With compensation and benefits representing 55% of total operating expenses for the current fiscal year, any change in that expense category can have significant impacts on total operating expenses. While salary increases have been modest, 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.*

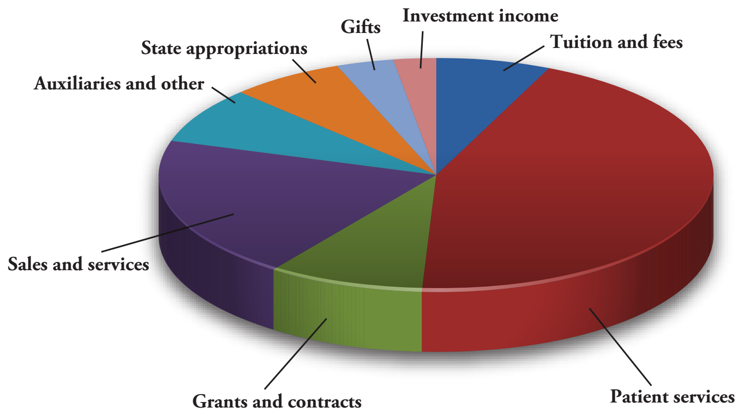
As a public university, the University of Utah receives funds from a variety of sources in support of its operations. While the Statement of Revenues, Expenses, and Changes in Net Position classifies certain funds as "nonoperating" for the purposes of financial reporting, such funds do, in fact, support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

State appropriations increased 4.3% from prior year which included funding to increase salaries, performance-based funding, and ongoing support for market demand programs. Gifts increased 34.6% primarily due to donor support for the David Eccles School of Business' creation of the Marriner S. Eccles Institute for Economic and Quantitative Analysis, support for the Medical Education and Discovery Building and the Rehabilitation Hospital. Investment income fluctuates from year to year, and reflects the impact of market performance. Fiscal year 2018 investment income decreased 1.2% from the prior year.

Figure 3

Total expenses (in thousands)	**2018**	**2017**	**2016**	**2015**	**2014**
Operating expenses					
Compensation and benefits	$2,509,786	$2,361,972	$2,124,108	$1,931,353	$1,789,054
Component units	531,708	473,981	435,283	395,966	381,829
Supplies	567,176	530,338	498,101	432,171	374,681
Depreciation and amortization	222,591	222,143	204,396	189,481	198,696
Other	753,877	776,531	703,847	754,893	641,931
Total operating expenses	4,585,138	4,364,965	3,965,735	3,703,864	3,386,191
Nonoperating expenses					
Interest and other	41,942	39,140	40,552	34,805	65,070
Total expenses	$4,627,080	$4,404,105	$4,006,287	$3,738,669	$3,451,261

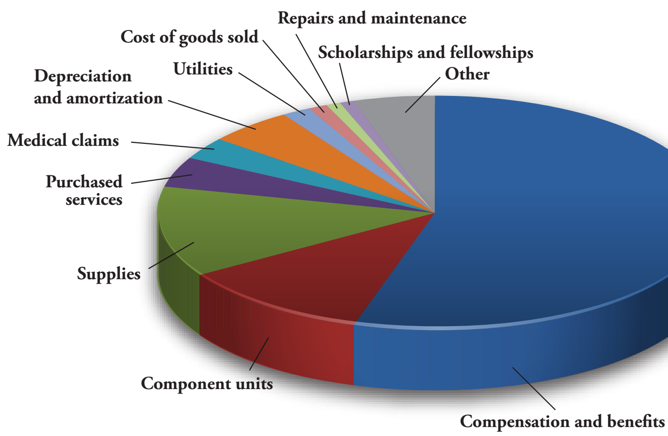
The graph below shows the various types of funding available to support the operations of the University:



Sources of Revenue in Support of Operations
For the Year Ended June 30, 2018 (in thousands)

Tuition and fees	$347,902
Patient services	2,209,201
Grants and contracts	455,950
Sales and services	991,457
Auxiliaries and other	386,095
State appropriations	335,828
Gifts	158,773
Investment income & other	125,210

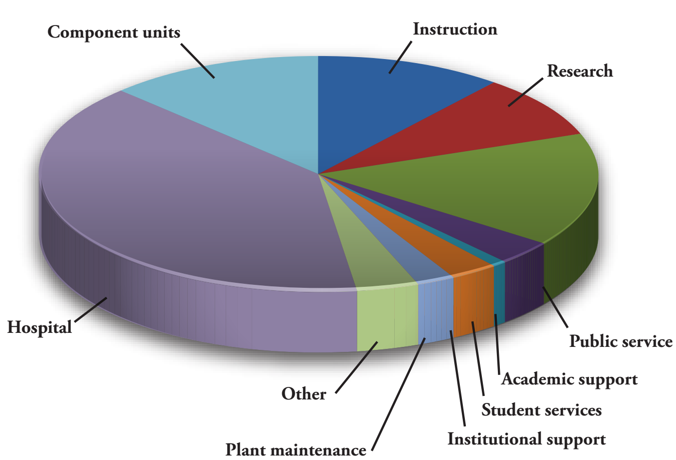
A graphical presentation of the University's operating expenses by natural classification appears below:



Operating Expenses
For the Year Ended June 30, 2018 (in thousands)

Compensation and benefits	$2,509,786
Component units	531,708
Supplies	567,176
Purchased services	194,826
Medical claims	139,194
Depreciation and amortization	222,591
Utilities	86,676
Cost of goods sold	40,969
Repairs and maintenance	45,246
Scholarships and fellowships	31,152
Other	215,814

Note 18 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, 2018 (in thousands)

Instruction	$505,157
Research	391,251
Public service	720,955
Academic support	149,060
Student services	39,028
Institutional support	118,514
Plant maintenance	103,051
Student aid	2,823
Other	162,498
Hospital	1,827,118
Component units	565,683

Figure 4					
Condensed Statement of Cash Flows – for the years ended June 30 (in thousands)	**2018**	**2017**	**2016**	**2015**	**2014**
Cash flows provided/(used) by:					
Operating activities	($17,577)	($27,462)	$23,692	$20,282	($39,872)
Noncapital financing activities	486,181	476,027	465,142	450,662	386,924
Capital and related financing activities	(394,621)	(362,599)	(361,844)	(197,718)	(137,461)
Investing activities	(28,358)	(26,623)	(110,779)	(404,932)	(75,814)
Net increase (decrease) in cash	45,625	59,343	16,211	(131,706)	133,777
Cash - beginning of year	614,896	555,553	539,342	671,048	537,271
Cash - end of year	$660,521	$614,896	$555,553	$539,342	$671,048

STATEMENT OF CASH FLOWS

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

Cash flows from operating activities 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.

Cash increased 7.4% from the prior year primarily due to a strategy of UUHC to increase days of cash on hand as well as UUHIP cash strategy to pay medical claims. The University actively manages its investment portfolio by balancing returns and liquidity, which may cause changes in cash balances. Cash and cash equivalents are held to the minimum needed to support operations, with any excess invested with varying maturity dates.

CAPITAL AND DEBT ACTIVITIES

- Some key construction projects were completed during the fiscal year, including the Gary L. and Ann T. Crocker Science Center at the George Thomas Building; Utility Distribution Infrastructure Replacement; Cleone Peterson Eccles Alumni House Renovation and Expansion; and the Orthopaedic Center Expansion. Ongoing projects include the Carolyn and Kem Gardner Commons, (replacing the Orson Spencer Hall); Robert H. and Katharine B. Garff Executive Education Building; Ambulatory Care Complex; Rehabilitation Hospital; South Campus Housing and Dining; Health Sciences Energy Efficiency Improvement; and Medical Education & Discovery Building. All of the current projects will be completed over the next several years.

- During fiscal year 2018, the University issued two bond series. In September, the University issued $155,930,000 of General Revenue and Refunding Bonds Series 2017A. Proceeds from these bonds were used towards the construction of a rehabilitation hospital, expansion of the University Guest House and, refunded a portion of the outstanding Series 2013A General Revenue bonds. In December, the University issued $96,550,000 of General Revenue Refunding Bonds Series 2017B. Proceeds from these bonds were used to refund a portion of the University Hospital Revenue and Refunding Bonds Series 2011A, a portion of the University's General Revenue and Refunding Bonds Series 2014B and a portion of the University's General Revenue and Refunding Bonds Series 2015A-1.

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's Administration 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, for our General Revenue Bond System are important indicators of the University's success in this area.

OUTLOOK FOR THE COMING FISCAL YEAR

The University's enrollment for Fall 2018 increased from Fall 2017 by 0.7% with first-time freshmen up 3.3%. This is the largest freshman class with a total of 4,256 students. We are seeing the success of a change in recruiting efforts across the State. 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 2023. Enrollment increases should stabilize and steadily increase based on the pool of potential Utah public school students.

During the 2018 legislative session, the University's recurring budget for 2018-2019 was increased by 8.1% compared to 2017-2018 which included funding to increase salaries, new student growth and capacity funding, and ongoing funds for performance. The economic growth in Utah is expected to moderate during 2018 with the job growth forecasted to increase at 2.8% for the year. Unemployment in Utah was 3.1% at the end of August 2018 as compared to 3.9% nationally. We are optimistic that the 2019 legislative session will continue to provide additional increases in funding.

During fiscal year 2018, the University raised $281.5 million of committed gifts. The University continues to benefit from the generosity of its donors and supporters and the number of active donors continues to increase. UUHC and ARUP continue to be recognized as leaders in their respective fields. The financial position for each is very strong and is expected to remain so. The University also remains very competitive in attracting research dollars and continues to see increases in sponsored project awards.

UUHIP added approximately 18,000 additional individual exchange members in 2018 due in part to Molina Healthcare exiting the individual market in the State of Utah. UUHIP anticipates that the 2018 commercial market will continue to remain competitive due to unique market forces in Utah.

There will be considerable uncertainty on the direction Federal regulation will go on the individual exchange, so UUHIP regularly monitors local and national developments for factors that may impact its performance. UUHIP's share of the large group and third-party administration market has continued to grow steadily in 2018.

The University exercises a prudent approach to the issuance of debt. 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, 2018

ASSETS	
Current Assets	
Cash and cash equivalents (Notes 2 & 4)	$ 489,281
Short-term investments (Notes 2 & 4)	923,901
Receivables, net (Note 5)	527,465
Inventory (Note 1)	85,948
Other assets (Note 6)	30,414
Total current assets	2,057,009
Noncurrent Assets	
Restricted cash and cash equivalents (Notes 2 & 4)	171,240
Restricted short-term investments (Notes 2 & 4)	3,226
Investments (Notes 3 & 4)	1,171,914
Restricted investments (Notes 3 & 4)	596,362
Restricted receivables, net (Note 5)	143,827
Donated property	1,263
Net pension asset	4
Other assets (Note 6)	20,186
Capital assets, net (Note 7)	3,323,706
Total noncurrent assets	5,431,728
Total assets	7,488,737
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on bond refunding (Note 1)	15,756
Deferred outflows related to pensions (Note 8)	67,378
Total deferred outflows of resources	83,134
LIABILITIES	
Current Liabilities	
Accounts payable (Note 5)	
to the State of Utah	43,979
to Others	152,967
Accrued payroll	160,595
Compensated absences and early retirement benefits (Notes 1 & 15)	66,934
Unearned revenue (Note 9)	73,689
Deposits and other liabilities (Notes 11 & 15)	132,443
Bonds, notes and contracts payable (Notes 14, 15, & 16)	74,285
Total current liabilities	704,892
Noncurrent Liabilities	
Compensated absences and early retirement benefits (Notes 1 & 15)	27,005
Deposits and other liabilities (Notes 11 & 15)	16,720
Bonds, notes and contracts payable (Notes 14, 15, & 16)	
to the State of Utah (HCH Phase II Lease)	86,300
to Others	980,617
Net pension liability (Note 8)	112,953
Total noncurrent liabilities	1,223,595
Total liabilities	$ 1,928,487

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The accompanying notes are an integral part of these financial statements

(in thousands of dollars)

DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to bonds (Note 1)	$ 1,531
Deferred inflows related to pensions (Note 8)	74,367
Total deferred inflows of resources	75,898
NET POSITION	
Net investment in capital assets	2,320,870
Restricted for	
Nonexpendable	
Instruction	187,965
Research	62,759
Public service	92,837
Academic support	53,192
Scholarships	190,824
Other	16,920
Expendable	
Research	97,121
Public service	131,511
Academic support	49,058
Institutional support	154,504
Scholarships	76,066
Loans	32,566
Debt service	2,241
Capital additions	95,678
Insurance enterprises	22,386
Other	96,034
Unrestricted	1,884,954
Total net position	$ 5,567,486

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, 2018

OPERATING REVENUES AND EXPENSES	
Revenues	
Tuition and fees, net (Note 1)	$ 347,902
Patient services, net (Notes 1 & 13)	2,209,201
Federal grants and contracts	304,456
State and local grants and contracts	17,731
Nongovernmental grants and contracts	133,763
Sales and services, net (Note 1)	991,457
Auxiliary enterprises, net (Note 1)	173,261
Other operating revenues	212,834
Total operating revenues	4,390,605
Expenses	
Compensation and benefits	2,509,786
Component units	531,708
Supplies	567,176
Purchased services	194,826
Medical claims	139,194
Depreciation and amortization	222,591
Utilities	86,676
Cost of goods sold	40,969
Repairs and maintenance	45,246
Scholarships and fellowships	31,152
Other operating expenses	215,814
Total operating expenses	4,585,138
Operating loss	(194,533)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	335,828
Government grants	34,615
Gifts	158,773
Investment income	90,595
Interest	(37,450)
Other	(4,492)
Total nonoperating revenues	577,869
Income before capital and permanent endowment additions	383,336
CAPITAL AND PERMANENT ENDOWMENT ADDITIONS	
Capital appropriations	118,749
Capital grants and gifts	56,754
Additions to permanent endowments	29,739
Total capital and permanent endowment additions	205,242
Increase in net position	588,578
NET POSITION	
Net position - beginning of year, as adjusted (Note 1)	4,978,908
Net position - end of year	$ 5,567,486

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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tuition and fees	$ 347,169
Receipts from patient services	2,177,728
Receipts from grants and contracts	423,157
Receipts from auxiliary and educational services	1,166,391
Collection of loans to students	8,207
Payments to suppliers	(1,812,388)
Payments for compensation and benefits	(2,499,403)
Payments for scholarships and fellowships	(31,152)
Loans issued to students	(5,492)
Other	208,206
Net cash used by operating activities	(17,577)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	335,828
Government grants	34,615
Federal direct loan receipts	145,587
Federal direct loan payments	(145,587)
Gifts	
Endowment	29,749
Nonendowment	83,487
Other	2,502
Net cash provided by noncapital financing activities	486,181
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	241,817
Capital appropriations	29,945
Gifts	55,463
Purchase of capital assets	(569,706)
Principal paid on capital debt	(110,571)
Interest paid on capital debt	(41,569)
Net cash used by capital and related financing activities	(394,621)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	2,061,282
Receipt of interest and dividends on investments	57,658
Purchase of investments	(2,147,299)
Net cash used by investing activities	(28,358)
Net increase in cash	45,625
Cash - beginning of year	614,896
Cash - ending of year	$ 660,521

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, 2018

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	$ (194,533)
Adjustments	
Depreciation and amortization expense	222,591
Change in assets, deferred outflows of resources, liabilities and deferred inflows of resources	
Receivables, net	(84,683)
Inventory	(12,670)
Other assets	3,873
Deferred outflows related to pensions	2,375
Accounts payable	18,024
Accrued payroll	10,980
Compensated absences and early retirement benefits	6,556
Unearned revenue	5,068
Deposits and other liabilities	14,369
Net pension liability	(55,062)
Deferred inflows related to pensions	45,535
Net cash used by operating activities	$ (17,577)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Capital leases	$ 13,871
Donated property and equipment	3,676
Completed construction projects transferred from State of Utah (Note 1)	88,804
Annuity and life income	69
Increase in fair value of investments	63,133
Total noncash investing, capital, and financing activities	$ 169,553

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 three other related entities representing component units of the University. Because the University appoints the majority of the three 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, *The Financial Reporting Entity: Omnibus and amendment of GASB Statements No. 14 and No. 34* have been met and the three organizations are included as blended component units of the University. The component units of the University are the University of Utah Research Foundation (UURF), ARUP Laboratories, Inc. (ARUP) and University of Utah Health Insurance Plans (UUHIP). 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 director, are affiliated with the University. The operations of UURF include the leasing and administration of Research Park (a research park located on land owned by the University), the leasing of certain buildings, and the commercial development of patents and products developed by University personnel. As part of its mission to advance technology commercialization, UURF creates new corporate entities to facilitate the startup process. In general, these entities do not have assets. Expenses related to the companies are expensed as incurred. The fiscal year end for UURF is June 30. UURF is audited by other independent auditors and their report, dated September 14, 2018, is 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 University of Utah School of Medicine Department of Pathology to provide pathology consulting services. The fiscal year end for ARUP is June 30. Other independent auditors audited ARUP and their report, dated August 31, 2018, is issued under separate cover.

- UUHIP is a not-for-profit corporation that provides individual and large group health insurance. UUHIP received its certificate of authority to offer health insurance in the State of Utah effective January 1, 2015 and started full operations in 2016. Also in 2016, it started building provider networks, processing payments and performing other administrative services for third parties. The fiscal year end for UUHIP is December 31. Other independent auditors audited UUHIP and their report, dated September 13, 2018, is issued under separate cover. Health insurance companies are subject to certain minimum surplus requirements as specified by the National Association of Insurance Commissioners (NAIC) and the Utah Insurance Department. Under those requirements, the amount of capital and surplus maintained by a health service insurance corporation is to be the greater of minimum Risk-Based Capital (RBC) or $400,000. RBC is determined based on the various risk factors related to UUHIP's operations. Regulatory compliance is determined by a ratio of UUHIP's total adjusted capital, calculated in the manner prescribed by NAIC to its authorized control level RBC. If UUHIP drops below specific trigger levels, a specified corrective action is required. The minimum level of total adjusted capital before corrective action commences is twice the authorized control level RBC. UUHIP met both minimum surplus requirements with RBC exceeding the authorized control level and surplus exceeding $400,000 at December 31, 2017.

All GASB pronouncements are applied by the University, UURF, ARUP and UUHIP 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. 72, *Fair Value Measurement and Application*. 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 4 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 year ended June 30, 2018:

Revenue Allowances	
Tuition and fees	$86,023,701
Patient services	90,098,603
Sales and services	8,742
Auxiliary enterprises	3,171,882

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, 2018 were approximately $12.4 million.

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, 2018 was approximately $43.7 million.

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, 66 employees participate in the early retirement program. The University pays each early retiree an annual amount equal to the lessor 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 2.5%. A discount rate of 1.8315% was used and is based on the average rate earned by the University on cash management investments for the fiscal year. For the year ended June 30, 2018, these expenditures were approximately $3.3 million.

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 May or 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, 2018 was approximately $43.7 million.

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 capitalized on certain projects. Construction projects administered by DFCM are not recorded on the books of the University until the facility is available for occupancy.

I. Deferred Outflows and Inflows

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 reductions to bond liabilities, gains resulting from bond refinancing transactions are reported as deferred inflows. In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, deferred outflows and deferred inflows of resources related to pensions have been recorded. Further information regarding pension reporting is found in Note 8.

J. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

K. Adjustments to Beginning Net Position

For the year ended June 30, 2018, the University had two adjustments which increased the beginning net position by a combined $38,352,810. Revenues on certain grants and contracts were not being recognized in the correct period. The resulting adjustment increased net position by $24,909,900. UUHIP was also added as a blended component unit which increased net position by $13,442,910.

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 UUHIP 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 of Utah 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, 2018, cash and cash equivalents and short-term investments consisted of:

Cash and Cash Equivalents	
Cash	$ 97,936,797
Money market funds	91,654,336
Repurchase agreements	122,900,000
Utah Public Treasurers' Investment Fund	344,786,965
Commercial paper	2,993,527
Time certificates of deposit	250,000
Total (fair value)	$ 660,521,625

Short-term Investments	
Commercial paper	$ 5,479,893
Time certificates of deposit	2,359,065
U.S. Treasuries	87,450,923
U.S. Agencies	766,955,020
Corporate notes	64,881,207
Total (fair value)	$927,126,108

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. Other investments are also recorded at fair value.

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, 2018 was 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, 2018 was approximately $114,666,000. The net appreciation is a component of restricted expendable net position.

At June 30, 2018, the investment portfolio composition was as follows:

Investments	
Time certificates of deposits	$ 9,199,176
U.S. Treasuries	4,937,891
U.S. Agencies	664,240,697
Municipal bonds	3,604,676
Corporate notes	37,762,562
Mutual funds	1,027,294,230
Common and preferred stocks	21,236,943
Total (fair value)	$1,768,276,175

4. DEPOSITS AND INVESTMENTS

The State of Utah Money Management Council has the responsibility to advise the Utah 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 Utah Money Management Council.

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

ARUP and UUHIP follow their own investment policies.

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, 2018, the carrying amounts of the University's deposits and bank balances were $97,505,372 and $126,771,074, 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 $1,584,347, by the FDIC. The bank balances in excess of $1,584,347 were uninsured and uncollateralized, leaving $125,186,727 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), or Federal National Mortgage Association (Fannie 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.

The Utah State Treasurer's Office operates the Public Treasurers' Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer and is not registered with the Securities and Exchange Commission (SEC) as an investment company. The PTIF is authorized and regulated by the Money Management Act (Utah Code, Title 51, Chapter 7). The Act established the Money Management Council which oversees the activities of the Utah 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 of Utah, and participants share proportionally in realized gains or losses on investments.

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: mutual funds registered with the SEC, investments sponsored by the Common Fund; 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 and private equity), natural resources, and private real estate assets or absolute return and long/short hedge funds.

Fair Value of Investments

The University measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

At June 30, 2018, the University had the following recurring fair value measurements:

		Fair Value Measurements Using		
Investments by fair value level	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt securities				
Money market mutual funds	$ 91,654,336	$ 5,306,266	$ 86,348,070	
Repurchase agreements	122,900,000		122,900,000	
Utah Public Treasurers' Investment Fund	344,786,965		344,786,965	
Commercial paper	8,473,420	2,993,527	5,479,893	
Time certificates of deposit	11,558,241		11,558,241	
U.S. Treasuries	92,388,814		92,388,814	
U.S. Agencies	1,431,195,717		1,431,195,717	
Corporate notes	102,643,769		102,643,769	
Municipal bonds	3,604,676		3,604,676	
Mutual bond funds	170,875,357		170,875,357	
Total debt securities	2,380,081,295	8,299,793	2,371,781,502	
Equity securities				
Common and preferred stocks	21,236,943	17,893,481		$ 3,343,462
Mutual equity funds	442,322,080		442,322,080	
Total equity securities	463,559,023	17,893,481	442,322,080	3,343,462
Total investments by fair value level	2,843,640,318	26,193,274	2,814,103,582	3,343,462
Investments measured at net asset value (NAV)				
Hedged equity	50,384,777			
Private equity	84,246,265			
Credit sensitive fixed income	24,008,710			
Private real estate	16,887,833			
Private natural resources	69,538,179			
Diversifying strategies	169,031,029			
Total investments measured at the NAV	414,096,793			
Total investments measured at fair value	$3,257,737,111	$26,193,274	$2,814,103,582	$ 3,343,462

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 are valued using the following approaches:

- U.S. Treasuries, U.S. Agencies, and Commercial Paper: quoted prices for identical securities in markets that are not active;
- Corporate and Municipal Bonds and Negotiable Certificates of Deposit: quoted prices for similar securities in active markets;
- Repurchase Agreements: valued at purchase price due to very short term to maturity;
- Money Market, Bond, and Equity Mutual Funds: published fair value per share (unit) for each fund; and
- Utah Public Treasurers' Investment Fund: application of the June 30, 2018 fair value factor, as calculated by the Utah State Treasurer, to the University's ending balance in the Fund.

Equity securities, namely common and preferred stocks, classified as Level 3 are valued manually using various sources such as issuer, investment manager or default price if a price is not provided.

Investments valued using the net asset value (NAV) per share (or its equivalent) are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. 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. The following table presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for the University's alternative investments measured at NAV:

Investments Measured at Net Asset Value (NAV)				
Investments	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Hedged equity	$ 50,384,777		Monthly, quarterly	30–75 days
Private equity	84,246,265	$ 52,162,375	N/A	N/A
Credit sensitive fixed income	24,008,710		Quarterly	90 days
Private real estate	16,887,833	6,306,397	N/A	N/A
Private natural resources	69,583,179	197,167,074	N/A	N/A
Diversifying strategies	169,031,029		Daily, quarterly, annually	0-90 days
Total alternative investments	$ 414,096,793			
Total unfunded commitments		$ 255,635,846		

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. The Act further limits the remaining term to maturity on all investments in obligations of the United States Treasury; obligations issued by U.S. government sponsored enterprises; and bonds, notes, and other evidence of indebtedness of political subdivisions of the State to 10 years. 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, 2018, the University had debt investments with maturities as shown below 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. ARUP and UUHIP manage their credit risk by requiring that 70% of their investment portfolio must be compliant with the Act.

Figure 1		**Investment Maturities (in years)**			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
Money market mutual funds	$ 91,654,336	$ 91,654,336			
Repurchase agreements	122,900,000	122,900,000			
Utah Public Treasurers' Investment Fund	344,786,965	344,786,965			
Commercial paper	8,473,420	8,473,420			
Time certificates of deposit	11,558,241	2,359,065	$ 9,199,176		
U.S. Treasuries	92,388,814	87,450,923	4,937,891		
U.S. Agencies	1,431,195,717	766,955,020	511,087,753	$ 153,152,944	
Corporate notes	102,643,769	64,881,207	36,684,442	271,310	$ 806,810
Municipal bonds	3,604,676		508,825	1,832,924	1,262,927
Mutual bond funds	170,875,357		29,099,434	141,775,923	
Totals	$ 2,380,081,295	$ 1,489,460,936	$ 591,517,521	$ 297,033,101	$ 2,069,737

Figure 2				**Quality Rating**			
Investment Type	**Fair Value**	**AAA/A-1***	**AA**	**A**	**BBB**	**Unrated**	**No Risk**
Money market mutual funds	$ 91,654,336	$ 10,114,638				$ 81,539,698	
Repurchase agreements – underlying:							
U.S. Agencies	122,900,000		$ 122,900,000				
Utah Public Treasurers' Investment Fund	344,786,965					344,786,965	
Commercial paper	8,473,420	2,485,785		$ 5,987,635			
Time certificates of deposit	11,558,241	2,652,897		3,451,953		5,453,391	
U.S. Treasuries	92,388,814						$ 92,388,814
U.S. Agencies	1,431,195,717	626,190,736	782,371,922			22,633,059	
Corporate notes	102,643,769	2,985,919	33,089,990	55,773,303	$10,523,247	271,310	
Municipal bonds	3,604,676	3,095,851	508,825				
Mutual bond funds	170,875,357		45,343,322			125,532,035	
Totals	$ 2,380,081,295	$ 647,525,826	$ 984,214,059	$65,212,891	$10,523,247	$ 580,216,458	$ 92,388,814

*A-1 is Commercial paper, Certificates of deposit and Agency Note rating

At June 30, 2018, the University had debt investments with quality ratings as shown on page 29 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 represented by a receipt, confirmation, or statement issued by the custodial bank.

At June 30, 2018, the University's custodial bank was both the custodian and the investment counterparty for $1,520,498,877 of U.S. Treasury and Agency securities purchased by the University; and $3,085,654 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 at the time of purchase.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University does not have a formal policy to limit foreign currency risk. At June 30, 2018, the University's exposure to foreign currency risk is $7,665,064 in Private Real Estate investments that are held in Euro currency denomination.

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 Category	Target	Range
Global Equity	**40%**	**30% - 50%**
Public Equities	25%	15% - 50%
Hedged Equity*	5%	0% - 10%
Private Equity*	10%	0% - 15%
Global Fixed Income/Credit	**20%**	**10% - 40%**
Interest Rate Sensitive	11%	5% - 40%
Credit Sensitive*	9%	0% - 20%
Real Assets	**20%**	**10% - 30%**
Real Estate*	7%	0% - 15%
Natural Resources*	8%	0% - 10%
Infrastructure*	5%	0% - 10%
Diversifying Strategies*	**20%**	**0% - 30%**

* May include semi-liquid hedge funds or illiquid private capital funds.

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, 2018, the University held more than 5% of its total investments in the Federal Home Loan Bank, the Federal Farm Credit Bank, the Federal Agricultural Mortgage Corporation, and the Federal Home Loan Mortgage Corporation. These investments represent 21.3%, 7.5%, 5.7%, and 5.3%, 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, 2018, including approximately $15.5 million and $128.3 million of noncurrent loans, and pledges receivable, respectively:

Accounts	$796,022,775
Grants and contracts	43,409,538
Loans	25,700,130
Pledges	152,038,587
Notes	171,325
Interest	8,613,792
	1,025,956,147
Less allowances for doubtful accounts	(354,664,672)
Receivables, net	$671,291,475

The following schedule presents the major components of accounts payable at June 30, 2018:

Vendors	$ 52,775,864
Interest	28,234,371
Payable to State	43,978,671
Other	71,957,046
Total accounts payable	$196,945,952

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, is amortized using the straight-line method. The June 30, 2018 balance of prepaid rent to the State was $18,725,419.

In the course of licensing intellectual property to business partners, the UURF may be granted an equity position in the entity the business partner has organized to commercialize University technology. The primary purpose of licensing University technology to the commercial entity, as well as, providing funding to the commercial entity, is to encourage research and positively impact the state, nation and world. The equity holdings the UURF is granted are a consequence of licensing University technology and do not meet the definition of investments for purposes of GASB 72 and thus, are classified as other assets in the Statement Net Position.

7. CAPITAL ASSETS

Buildings; infrastructure and improvements, which include roads, curb and gutter, streets and sidewalks, and lighting systems; land; equipment; library materials; and intangible assets (primarily software) are valued at historical cost or at acquisition value at the date of donation. 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

Figure 3	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	$3,399,765,154	$ 190,718,062	-	$ 3,590,483,216
Infrastructure and improvements	349,020,574	96,932,633	$ (3,366,498)	442,586,709
Land	44,130,425	12,149,782	-	56,280,207
Equipment (including intangibles)	1,135,305,505	98,251,963	(55,828,420)	1,177,729,048
Library materials	145,743,120	698,186	(204,965)	146,236,341
Art and special collections	76,924,037	3,382,797	(71,400)	80,235,434
Construction in progress	239,284,380	323,824,693	(139,979,978)	423,129,095
Total cost	5,390,173,195	725,958,116	(199,451,261)	5,916,680,050
Less accumulated depreciation				
Buildings	1,279,818,118	98,649,760	-	1,378,467,878
Infrastructure and improvements	212,127,600	20,599,968	(3,366,498)	229,361,070
Equipment	812,788,628	97,524,199	(52,999,255)	857,313,572
Library materials	126,394,584	1,641,513	(204,965)	127,831,132
Total accumulated depreciation	2,431,128,930	218,415,439	(56,570,718)	2,592,973,652
Capital assets, net	$2,959,044,265	$ 507,542,676	$ (142,880,543)	$ 3,323,706,398

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 historical cost.

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 extend to forty years on buildings, fifteen years on infrastructure and improvements, twenty years on library books, from five to twenty years on equipment and from five to ten years on software. The estimated useful lives of component unit assets extend to fifty years on buildings and improvements and from three to eight years on equipment. Land, art and special collections, and construction in progress are not depreciated.

At June 30, 2018, the University had outstanding commitments for the construction and remodeling of University buildings of approximately $62.6 million.

Capital assets at June 30, 2018, are shown in *Figure 3* on page 31.

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 defined benefit plans sponsored by the Utah Retirement Systems (Systems) and eligible exempt employees (as defined by the U.S. Fair Labor Standards Act) are covered by defined contribution plans, such as the Teachers Insurance and Annuity Association (TIAA), the UUHC 401(a) Plan, the UUHC Hospital Plan Plus (HPP) Benefit Program, or Fidelity Investments (Fidelity). Eligible employees of ARUP are covered by a separate defined contribution pension plan and a profit sharing plan.

Defined Benefit Plans

Eligible plan participants are provided with pensions through the Utah Retirement Systems. Utah Retirement Systems are comprised of the following Pension Trust Funds:

- Public Employees Noncontributory Retirement System (Noncontributory System) and the Public Employees Contributory Retirement System (Contributory System) both of which are cost-sharing, multiple-employer public employee retirement systems.
- The Public Safety Retirement System (Public Safety System) which is a cost-sharing, multiple-employer public employee retirement system.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System), and the Tier 2 Public Safety and Firefighter Contributory Retirement System (Tier 2 Public Safety and Firefighter System) which are multiple employer, cost sharing, public employee retirement systems.

The Tier 2 Public Employee System and the Tier 2 Public Safety and Firefighter System were created July 1, 2011. All eligible employees who have no previous service credit with any of the Utah Retirement Systems prior to that date, are members of the Tier 2 Retirement Systems.

The Systems are established and governed by the respective sections of Title 49 of the Utah Code Annotated, 1953, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act provides for the administration of the Systems under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds and are a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms.

URS issues a publicly available financial report that can be obtained by writing to the Utah Retirement Systems at 560 East 200 South, Salt Lake City, UT 84102 or visiting the website www.urs.org.

The Systems provide retirement, disability, and death benefits. Retirement benefits are as follows:

Summary of Benefits by System				
System	**Final Average Salary**	**Years of Service required and/ or age eligible for benefit**	**Benefit percent per year of service**	**COLA****
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Contributory System	Highest 5 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	1.25% per year to June 1975; 2.00% per year July 1975 to present	Up to 4%
Public Safety System	Highest 3 years	20 years any age 10 years age 60 4 years age 65	2.5% per year up to 20 years; 2% per year over 20 years	Up to 2.5% to 4% depending on the employer
Tier 2 Public Employees System	Highest 5 years	35 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%
Tier 2 Public Safety and Firefighter System	Highest 5 years	25 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%

* With actuarial reductions

** All post-retirement cost of living adjustments are non-compounding and are based on the original benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the Utah State Retirement Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates are as follows:

	Paid by Employer for Employee	**Employer Contribution Rates**
Noncontributory System		
State and School Division Tier 1	N/A	22.19%
Contributory System		
State and School Division Tier 1	6%	17.70%
State and School Division Tier 2*	N/A	18.44%
Public Safety System		
Public Safety Tier 1	N/A	41.35%
Public Safety Tier 2*	N/A	29.28%

* Tier 2 rates include a statutory required contribution to finance the unfunded actuarial liability of the Tier 1 plans.

For the year ended June 30, 2018, the University and employee contributions to the plans were as follows:

	Employer Contributions	**Employee Contributions**
Noncontributory System	$25,003,713	N/A
Contributory System	754,331	-
Public Safety System	789,054	-
Tier 2 Public Employees System	5,444,034	-
Tier 2 Public Safety and Firefighter System	102,648	-
Total	$32,093,780	$ 0

Contributions reported are the URS Board approved required contributions. Contributions in the Tier 2 Systems are used to finance the unfunded liabilities in the Tier 1 Systems.

At June 30, 2018, the University's net pension asset and liability were as follows:

	Proportionate Share December 31, 2017	Proportionate Share December 31, 2016	Change Increase/(Decrease)	Net Pension Asset	Net Pension Liability
Noncontributory System	4.4314989%	4.7020251%	(0.2705262%)	-	$ 108,366,198
Contributory System	20.1819859%	21.2554088%	(1.0734229%)	-	1,328,057
Public Safety System	1.7119332%	1.4847326%	0.2272006%	-	2,976,823
Tier 2 Public Employees System	3.1919359%	4.6076123%	(1.4156764%)	-	281,424
Tier 2 Public Safety and Firefighter System	0.3045036%	0.4372690%	(0.1327654%)	$ 3,523	-
Total Net Pension Asset / Liability				$ 3,523	$ 112,952,502

The net pension asset and liability were measured as of December 31, 2017, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2017 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the year ended June 30, 2018, the University recognized pension expense of $25,676,203 for the defined benefit pension plans.

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 55,323	$ 6,617,732
Changes in assumptions	28,353,367	859,054
Net difference between projected and actual earnings on pension plan investments	22,036,263	55,084,868
Changes in proportion and differences between contributions and proportionate share of contributions	806,109	11,805,288
Contributions subsequent to the measurement date	16,127,057	-
Total	$ 67,378,119	$ 74,366,942

Contributions made between January 1, 2018 and June 30, 2018 of $16,127,057 are reported as deferred outflows of resources related to pensions. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended December 31	Net Deferred Outflows/ (Inflows) of Resources
2018	$ (1,407,040)
2019	1,139,907
2020	(11,110,829)
2021	(11,954,661)
2022	(62,165)
Thereafter	278,909

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 – 9.75 percent, average, including inflation
Investment rate of return	6.95 percent, net of pension plan investment expense, including inflation

Mortality rates were developed from actual experience and mortality tables, based on gender, occupation, and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the five-year period ending December 31, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class and is applied consistently to each defined benefit pension plan. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Expected Return Arithmetic Basis			
Asset Class	**Target Asset Allocation**	**Real Return Arithmetic Basis**	**Long-Term expected portfolio real rate of return**
Equity securities	40%	6.15%	2.46%
Debt securities	20%	0.40%	0.08%
Real assets	15%	5.75%	0.86%
Private equity	9%	9.95%	0.89%
Absolute return	16%	2.85%	0.46%
Cash and equivalents	0%	0.00%	0.00%
Totals	100%		4.75%
Inflation			2.50%
Expected arithmetic nominal return			7.25%

The 6.95% assumed investment rate of return is comprised of an inflation rate of 2.50%, a real return of 4.45% that is net of investment expense.

The discount rate used to measure the total pension liability was 6.95%. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. The discount rate was reduced to 6.95 percent from 7.2 percent from the prior measurement period.

The following presents the proportionate share of the net pension liability (asset) calculated using the discount rate of 6.95%, as well as, what the proportionate share of the net pension liability (asset) would be if calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.95%)	Discount Rate (6.95%)	1% Increase (7.95%)
Proportionate Share of Net Pension Liability (Asset)			
Noncontributory System	$ 236,609,255	$108,366,198	$ 1,180,810
Contributory System	17,502,236	1,328,057	(12,441,928)
Public Safety	6,185,789	2,976,823	341,427
Tier 2 Public Employees System	3,313,635	281,424	(2,056,845)
Tier 2 Public Safety and Firefighter System	31,201	(3,523)	(30,053)
Totals	$ 263,642,116	$ 112,948,979	$(13,006,589)

Detailed information about the pension plan's fiduciary net position is available in the separately issued URS financial report.

Defined Contribution Plans

The University offers employees the choice between URS, TIAA, and Fidelity for individual retirement funds. Employees who participate in the State and School Noncontributory and Tier 2 pension plans also participate in qualified contributory 401(k) and 457 savings plans administered by the Utah Retirement Systems (Systems). The University contributes 1.5% and 1.58%, and 1.26%, respectively of participating employees' annual salaries to a 401(k) plan administered by the Systems. For employees participating in the Tier 2 Public Employee defined contribution plan and Tier 2 Public Safety and Firefighter defined contribution plan, the University is required to contribute 20.02% and 30.54%, respectively, of the employee's salary, of which 10% and 12%, respectively, is paid into the 401(k) 457 plan while the remainder is contributed to the Tier 1 Contributory Public Employee System, as required by law. During the year ended June 30, 2018, the University's contribution totaled $2,948,385, which was included in the pension expense, and the participating employees' voluntary contributions totaled $210,225. These plans are voluntary tax-advantaged retirement savings programs authorized under sections 401(k), 457(b) and 408 of the Internal Revenue code. Detailed information regarding plan provisions is available in the separately issued URS financial report.

TIAA 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, 2018, 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.

UUHC employees hired prior to January 1, 2001, who were not enrolled in the URS program, are enrolled in a 401(a) defined contribution plan that is administered by the UUHC Chief Human Resources Officer. The administrator has the authority to amend, modify, or terminate the plan. UUHC is required to contribute 14.2% of covered payroll to the plan for the employees covered under this plan. Hospital employees hired subsequent to December 31, 2000 are enrolled in a separate 401(a) plan, the Hospital Plan Plus (HPP) Benefit Program. UUHC contributes 6% for employees covered under this plan. In addition, these employees are eligible for a match on employee contributions to a 403(b) Match Plan up to 3% of salary and fully vest in the UUHC's contributions to both plans after six years of service. Plan member contributions were approximately $26,530,000 for the year ended June 30, 2018.

The ARUP defined contribution pension and profit sharing plans provide retirement benefits for all employees. Employees may choose to pay into the federal social security tax system or to participate in an

enhanced ARUP retirement program. For those who choose to continue to pay social security taxes, ARUP makes contributions each pay period amounting to 5.00% of their compensation and ARUP continues to make matching social security tax contributions. For those who discontinue paying social security taxes, ARUP makes contributions each pay period amounting to 8.10% of their compensation and does not contribute any social security tax 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. Voluntary contributions to the profit sharing plan by employee participants totaled $19,602,647 for the year ended June 30, 2018.

In addition, employees of the University may also contribute to 403(b), 457(b) traditional, Roth IRA, or a 401(k) plan. The total fiscal year 2018 employee contributions to these plans were $86,751,984.

For the year ended June 30, 2018, the University's contributions to the defined contribution plans were equal to the required amounts, as shown in *Figure 4*.

Figure 4	2018
TIAA	$ 87,145,285
Fidelity	84,185,043
401(a), Hospital Plan Plus, & 403(b)	44,583,000
Employer 401(k) Contributions	2,948,385
ARUP defined contribution plan	15,655,664
ARUP Profit sharing plan	12,616,940
Total employer contributions	$ 247,134,317

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 for the sole benefit of the University 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, 2018 was $140,337,076.

In addition, certain funds held in trust by others are comprised of stock, which is reported at a value of $14,190,863 as of June 30, 2018, based on a predetermined formula. The fair value of this stock as of June 30, 2018 cannot be determined because the stock is not actively traded.

11. RISK MANAGEMENT AND INSURANCE

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, 2018, is adequate to cover any claims incurred through that date. The University and UUHC have a "claims made" umbrella health care professional malpractice insurance policy in an amount considered adequate by its respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances, the coverage provides for $15 million per claim and $15 million in the aggregate.

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 is shown in *Figure 5*.

Figure 5	2018	2017
Estimated claims liability - beginning of year	$ 84,541,532	$ 84,151,807
Current year claims and changes in estimates	175,096,798	145,222,805
Claim payments, including related legal and administrative expenses	(176,188,022)	(144,833,080)
Estimated claims liability - end of year	$ 83,450,308	$ 84,541,532

The University has recorded the investments of the malpractice liability trust funds at June 30, 2018, 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.

In 2016, UUHIP launched into the commercial health insurance market in Utah, specifically in the individual and large group market. UUHIP management does not believe it is subject to health insurer assessment under section 9010 of the Affordable Care Act (ACA) as a governmental entity associated with the University. To stabilize financial results, the federal government established the following permanent and transitional risk sharing programs with insurers of ACA-compliant plans:

- The permanent risk adjustment program redistributes insurer premiums based on qualitative market data.
- The transitional reinsurance program reimburses insurers of ACA-compliant plans for claimants exceeding specified limits and is a temporary provision that ended after December 31, 2016.
- The transitional risk corridors program shares excessive insurer gains or losses with the federal government and is a temporary provision that ended after December 31, 2016.

UUHIP has a reinsurance arrangement whereby premiums and benefits are ceded to another insurance company. The agreement is for certain

coverage that provides reinsurance protection for 100% of qualified health claims in excess of $600,000 per occurrence. Premiums to reinsurers for reinsurance ceded reduced premium revenue by approximately $428,000 during 2017. Excluding amounts recoverable under the ACA transitional reinsurance program, UUHIP had approximately $1,930,050 in reinsurance recoupments that reduced health benefits during 2017. During the year ended December 31, 2017, UUHIP did not commute any ceded reinsurance nor did it enter into or engage in any loss portfolio transfer for any lines of business. Changes in UUHIP's estimated claims liability for the years ended December 31 is shown in *Figure 6*.

Figure 6	2017	2016
Estimated claims liability - beginning of year	$ 2,553,007	-
Current year claims and changes in estimates	40,563,004	$ 20,828,004
Claim payments, including related legal and administrative expenses	(38,322,214)	(18,274,997)
Estimated claims liability - end of year	$ 4,793,797	$ 2,553,007

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 IRC. 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 IRC Section 115.

13. HOSPITAL REVENUE

A. Net Patient Service Revenue

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

UUHC has third-party payor agreements with Medicare and Medicaid that provide for payments to

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

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

B. Charity Care

UUHC maintains records to identify and monitor the level of charity care it provides. Based on established rates, the charges foregone as a result of charity care during the year ended June 30, 2018, were approximately $87.5 million.

14. LEASES

A. Revenue

UURF receives lease revenues from noncancellable sublease agreements with tenants of the Research Park and from tenants occupying eight buildings owned by UURF. The lease revenue to be received from these noncancellable leases for each of the subsequent five years is approximately $11 million. 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, 2018, the historical cost of land and buildings held for lease and the related accumulated depreciation was $90.1 million and $28.4 million, 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 $80.9 million and $138.8 million for buildings and equipment, respectively. Accumulated depreciation for these buildings and equipment was $14.2 million and $60.5 million, 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 $27.5 million for the University and $1.0 million for component units for the year ended June 30, 2018. Total operating lease commitments for the University include approximately $21.9 million of commitments to component units.

Future minimum lease commitments for operating and capital leases as of June 30, 2018 are shown in *Figure 7*.

Figure 7

Fiscal Year	Operating	Capital
2019	$ 35,426,550	$ 22,364,422
2020	26,316,304	26,509,527
2021	24,253,657	25,307,631
2022	20,171,541	23,324,358
2023	17,441,118	20,275,538
2024–2028	59,413,176	50,061,986
2029–2033	13,513,388	24,520,491
2034–2038	7,306,244	
2039–2043	4,546,909	
2044–2048	3,724,604	
2049–2053	787,478	
2054–2058	54,369	
Total future minimum lease payments	$ 212,955,338	192,363,953
Amount representing interest		(30,043,817)
Present value of future minimum lease payments		$ 162,320,136

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, net pension liability, 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.

During fiscal year 2018, the University issued two bond issues. In September, the University issued $155,930,000 of General Revenue and Refunding Bonds Series 2017A. Proceeds from these bonds are to be used towards the construction of a rehabilitation hospital, expansion of the University Guest House and, were used to refund a portion of the outstanding Series 2013A General Revenue bonds. In December, the University issued $96,550,000 of General Revenue Refunding Bonds Series 2017B. Proceeds from these bonds were used to refund a portion of the University Hospital Revenue and Refunding Bonds Series 2011A, a portion of General Revenue Commercial Paper Notes Series 2013B, a portion of the University's General Revenue and Refunding Bonds Series 2014B and a portion of the University's General Revenue and Refunding Bonds Series 2015A-1.

The following schedule lists the outstanding bonds payable and certificates of participation of the University at June 30, 2018:

Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Current Liability	Balance 6/30/2018(a)
Auxiliary and Campus Facilities						
Series 1998A - Revenue Refunding	7/1/98	2029	4.100% - 5.250%	$120,240,000	$ 38,291	$ 30,905,048
Series 2010A - Revenue Refunding	5/11/10	2020	2.000% - 5.000%	23,515,000	177,661	355,322
Series 2010C - Revenue	12/28/10	2036	1.750% - 5.890%	42,525,000	1,490,000	37,085,000
Series 2012A - Revenue	7/10/12	2030	2.000% - 5.000%	46,235,000	2,158,665	9,078,621
Hospital Facilities						
Series 2006A - Revenue Refunding	10/26/06	2022	4.000% - 5.250%	77,145,000	1,230,367	9,684,108
Series 2009B - Taxable Revenue	12/17/09	2031	4.697% - 5.247%	41,785,000	2,410,000	39,450,000
Series 2010 - Revenue	8/2/10	2021	3.000% - 5.000%	36,120,000	2,022,330	8,250,978
Series 2011A - Revenue Refunding	5/24/11	2027	3.600%	20,145,000	1,240,000	3,865,000
Series 2011B – Revenue Refunding	7/28/11	2021	3.350% - 5.000%	66,480,000	3,244,230	10,002,923
Research Facilities						
Series 2009A - Revenue	8/26/09	2019	4.000% - 5.000%	19,080,000	2,376,472	2,376,472
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	40,169	23,651,969
Series 2014A - Revenue Refunding	4/1/14	2027	4.000% - 5.000%	32,785,000	7,605,708	33,897,410
Series 2014B - Revenue Refunding	7/15/14	2038	2.000% - 5.000%	76,200,000	3,110,127	38,270,144
Series 2015A - Revenue Refunding	1/7/15	2034	1.500% - 5.000%	45,330,000	5,748,267	24,582,756
Series 2015B - Revenue Refunding	5/13/15	2035	3.000% - 5.000%	91,570,000	5,156,159	97,138,735
Series 2016A - Revenue Refunding	3/8/16	2036	3.000% - 5.000%	68,210,000	4,036,342	82,323,137
Series 2016B – Revenue Refunding	11/29/16	2036	2.000% - 5.000%	131,720,000	3,875,173	157,110,049
Series 2017A – Revenue Refunding	9/13/17	2039	4.000% - 5.000%	155,930,000	4,512,030	186,518,943
Series 2017B – Revenue Refunding	12/21/17	2038	3.000% - 5.000%	96,550,000	865,163	116,787,461
Certificates of Participation						
Series 2015	6/10/15	2026	1.800%	10,050,000	1,745,000	8,725,000
Total					$ 53,082,154	$947,789,076

(a) Includes unamortized premiums on refunding.

UURF has purchased four buildings with three mortgages that are guaranteed by the University, as well as, two Notes Payable to the University. The remaining amounts of the mortgages are $1,327,346 at 8.87% interest, $957,275 at 7.15% interest and $25,160,676 at 5.53% interest. The mortgages will be paid off on April 1, 2020, September 1, 2021 and September 30, 2028, respectively. The Notes call for annual payments at 4% and 2% interest until June and October 2024.

The following schedule summarizes the changes in long-term liabilities for the year ended June 30, 2018.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$ 845,999,355	$ 300,459,249	$ 207,394,528	$ 939,064,076	$ 51,337,154
Certificates of participation	11,477,369	-	2,752,369	8,725,000	1,745,000
Capital leases payable	173,695,201	13,871,054	25,246,119	162,320,136	17,871,329
Notes and contracts payable	75,583,627	2,174,118	46,664,305	31,093,440	3,331,778
Total long-term debt	1,106,755,552	316,504,421	282,057,321	1,141,202,652	74,285,261
Compensated absences	87,382,993	82,169,954	75,613,790	93,939,157	66,934,350
Net pension liability	168,014,659	-	55,062,156	112,952,503	-
Deposits & other liabilities	133,484,384	135,697,443	120,018,264	149,163,563	132,443,443
Total long-term liabilities	$1,495,637,588	$ 534,371,818	$ 532,751,531	$1,497,257,875	$ 273,663,053

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

	Payments	
Fiscal Year	Principal	Interest
2019	$ 74,285,261	$ 46,272,957
2020	82,157,645	43,914,327
2021	80,368,906	40,932,697
2022	81,562,986	38,131,741
2023	84,625,450	34,619,536
2024–2028	377,022,178	120,341,439
2029–2033	239,964,485	45,520,130
2034–2038	103,595,821	11,066,175
2039–2043	17,602,152	464,725
2044–2048	17,768	
Total	$ 1,141,202,652	$ 381,263,727

Interest related to bond systems with pledged revenues amounts to $342,632,271 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, 2018 is $380,995,000.

The University issued General Revenue Refunding Bonds Series 2017A and 2017B during the fiscal year to partially refund portions of outstanding bonds as described in Note 15. The refunding activity had limited impact on the retirement period but did result in a decrease of aggregate debt service payments of $107,000 and a present value economic gain of approximately $71,000.

17. 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 8 presents the net revenue pledged and the principal and interest paid for the year ended June 30, 2018.

Figure 8	
Revenue	
Operating revenue	$ 2,999,404,525
Nonoperating revenue	117,632,421
Total revenue	3,117,036,946
Expenses	
Operating expenses	2,694,568,514
Total expenses	2,694,568,514
Net pledged revenue	$ 422,468,432
Principal and interest paid	$ 74,466,956

18. FUNCTIONAL CLASSIFICATION OF EXPENSES

The following schedule presents, in thousands of dollars, operating expenses by functional classification for the year ended June 30, 2018:

Function	Compensation and Benefits	Supplies and Services	Utilities	Scholarships & Fellowships	Depreciation	Medical Claims	Component Units	Total
Instruction	$ 393,003	$ 49,083	$ 2,291	$ 60,780				$ 505,157
Research	257,979	128,341	1,350	3,581				391,251
Public service	625,989	63,526	28,750	1,936	$ 754			720,955
Academic support	105,726	41,342	1,379	613				149,060
Student services	26,151	11,761	716	400				39,028
Institutional support	129,272	(17,858)	5,772	1,328				118,514
Plant maintenance	38,025	46,690	18,328	8				103,051
Student aid	4,935	40,045	10	(42,167)				2,823
Other	71,001	(46,097)	10,373	4,673	122,548			162,498
Hospital	852,038	747,198	17,707		70,981	$ 139,194		1,827,118
Component units	5,667				28,308		$ 531,708	565,683
Total	$ 2,509,786	$ 1,064,031	$ 86,676	$ 31,152	$ 222,591	$ 139,194	$ 531,708	$ 4,585,138

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 $26.8 million for the year ended June 30, 2018. 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. BLENDED COMPONENT UNITS

The following schedules present, exclusive of eliminations, condensed statements of net position, changes in net position, and cash flows for UURF, ARUP and UUHIP. Amounts for UURF and ARUP are for the year ended June 30, 2018, and UUHIP are for the year ended December 31, 2017.

Condensed Statement of Net Position	UURF	ARUP	UUHIP	Total
ASSETS				
Current Assets				
Receivable from University		$ 6,513,032		$ 6,513,032
Other	$ 11,672,291	307,905,354	$ 35,774,621	355,352,266
Capital assets, net	66,747,941	230,835,043		297,582,984
Other noncurrent assets	8,244,190	3,501,898		11,746,088
Total assets	86,664,422	548,755,327	35,774,621	671,194,370
LIABILITIES				
Current liabilities				
Payable to University		8,363,408	5,951,361	14,314,769
Other	8,927,236	67,160,627	7,437,723	83,525,586
Noncurrent liabilities	30,216,966			30,216,966
Total liabilities	39,144,202	75,524,035	13,389,084	128,057,321
NET POSITION				
Net investment in capital assets	33,427,049	230,835,043		264,262,092
Restricted expendable			22,385,537	22,385,537
Unrestricted	14,093,171	242,396,249		259,489,420
Total net position	$ 47,520,220	$ 473,231,292	$ 22,385,537	$ 543,137,049

Condensed Statement of Revenues, Expenses, and Changes in Net Position	UURF	ARUP	UUHIP	Total
OPERATING REVENUES				
Leases	$ 16,405,310			$ 16,405,310
Royalties	8,614,915			8,614,915
Sales and services		$ 638,736,255	$ 50,033,621	688,769,876
Net increase in fair value of investments	118,568			118,568
Total operating revenues	25,138,793	638,736,255	50,033,621	713,908,669
OPERATING EXPENSES				
Operating expenses	15,817,097	523,504,287	49,392,932	588,714,216
Depreciation	2,043,185	26,264,870		28,308,055
Total operating expenses	17,860,282	549,769,157	49,392,832	617,022,271
Operating income	7,278,511	88,967,098	640,789	96,886,398
NONOPERATING REVENUES (EXPENSES)				
Investment income	85,961	5,253,542	301,838	5,641,341
Interest expense	(1,827,094)			(1,827,094)
Sale of equity investments	42,823			42,823
Contributions from (distributions to) the University	(448,056)	(63,072,943)	8,000,000	(55,520,999)
Total nonoperating revenues/(expenses)	(2,146,366)	(57,819,401)	8,301,838	(51,663,929)
Net increase in net position	5,132,145	31,147,697	8,942,627	45,222,469
NET POSITION				
Net position – beginning of year	42,388,075	442,083,595	13,442,910	497,914,580
Net position – end of year	$ 47,520,220	$ 473,231,292	$ 22,385,537	$ 543,137,049

Condensed Statement of Cash Flows	UURF	ARUP	UUHIP	Total
Net cash provided by operating activities	$ 10,950,959	$ 101,091,710	$ 7,014,589	$ 119,057,258
Net cash provided/(used) by noncapital financing activities	(448,056)	(62,699,559)	8,000,000	(55,147,615)
Net cash used by capital and related financing activities	(12,793,585)	(38,558,038)		(51,351,623)
Net cash provided/(used) by investing activities	329,076	(5,617,966)	(5,769,283)	(11,058,173)
Net increase (decrease) in cash	(1,961,606)	(5,783,853)	9,245,306	1,499,847
Cash - beginning of year	15,171,690	11,627,478	562,532	27,361,700
Cash - end of year	$ 13,210,084	$ 5,843,625	$ 9,807,383	$ 28,861,547

21. SUBSEQUENT EVENTS

In July 2018, the University issued $80.04 million of General Revenue Bonds, Series 2018A. Principal on the bonds is due annually commencing August 1, 2020 through June 30, 2040. Bond interest is due semi-annually commencing February 1, 2019 at rates ranging from 4.00% to 5.00%. Proceeds from these bonds are to be used to finance a portion of the costs of constructing an expansion to existing student housing and dining facilities on the University main campus and, to pay costs of issuance.

REQUIRED SUPPLEMENTARY INFORMATION

University of Utah Proportionate Share of the Net Pension Liability Noncontributory, Contributory, & Tier 2 Public Employees Systems of the Utah Retirement Systems for the years ended December 31	2017	2016	2015	2014
Noncontributory System				
Proportion of net pension liability (asset)	4.43149890%	4.72255030%	5.06361980%	5.10932610%
Proportionate share of net pension liability (asset)	$ 108,366,198	$ 153,053,931	$ 159,062,799	$ 128,373,118
Covered payroll	$ 115,352,151	$ 120,168,221	$ 124,949,531	$ 129,614,271
Proportionate share of net pension liability (asset) as a percentage of covered payroll	93,94%	127.37%	127.30%	99.00%
Plan fiduciary net position as a percentage of total pension liability	89.20%	84.90%	84.50%	87.20%
Contributory System				
Proportion of net pension liability (asset)	20.18198590%	20.57222910%	19.93038900%	18.75239770%
Proportionate share of net pension liability (asset)	$ 1,328,057	$ 11,272,710	$ 12,489,421	$ 2,056,560
Covered payroll	$ 4,591,975	$ 5,514,741	$ 6,313,501	$ 6,757,960
Proportionate share of net pension liability (asset) as a percentage of covered payroll	28.92%	204.41%	197.82%	30.40%
Plan fiduciary net position as a percentage of total pension liability	99.20%	93.40%	92.40%	98.70%
Public Safety System				
Proportion of net pension liability (asset)	1.71193320%	1.48473260%	1.41567170%	1.14690980%
Proportionate share of net pension liability (asset)	$ 2,976,823	$ 3,174,487	$ 3,047,750	$ 2,131,232
Covered payroll	$ 2,272,929	$ 2,087,879	$ 1,951,440	$ 1,637,085
Proportionate share of net pension liability (asset) as a percentage of covered payroll	130.97%	152.04%	156.18%	130.20%
Plan fiduciary net position as a percentage of total pension liability	87.40%	83.50%	82.30%	84.30%
Tier 2 Public Employees System				
Proportion of net pension liability (asset)	3.19193590%	4.60362900%	6.64369130%	6.78702880%
Proportionate share of net pension liability (asset)	$ 281,424	$ 513,532	$ (14,503)	$ (205,677)
Covered payroll	$ 31,272,494	$ 37,753,425	$ 42,922,742	$ 33,308,008
Proportionate share of net pension liability (asset) as a percentage of covered payroll	0.90%	1.36%	-0.03%	-0.60%
Plan fiduciary net position as a percentage of total pension liability	97.40%	95.10%	100.20%	103.50%
Tier 2 Public Safety and Firefighter System				
Proportion of net pension liability (asset)	0.30450360%	0.43726900%	0.39878160%	0.36002060%
Proportionate share of net pension liability (asset)	$ (3,523)	$ (3,796)	$ (5,826)	$ (5,326)
Covered payroll	$ 321,462	$ 361,284	$ 237,408	$ 148,982
Proportionate share of net pension liability (asset) as a percentage of covered payroll	(1.10%)	(1.05%)	(2.45%)	(3.60%)
Plan fiduciary net position as a percentage of total pension liability	103.00%	103.60%	110.70%	120.50%

* Note: The University implemented GASB Statement No. 68 in fiscal year 2015. Information on the University's portion of the plans' net pension liabilities (assets) is not available for periods prior to fiscal year 2015.

Changes in Assumptions:

As a result of an experience study conducted as of December 31, 2016, the Board adopted recommended changes to several economic and demographic assumptions that are used in the actuarial valuation. The assumption that had the largest impact on the Total Pension Liability (and actuarial accrued liability) included a decrease in the investment return assumption from 7.2% to 6.95%, a reduction in the price inflation assumption from 2.60% to 2.5% (which also resulted in a corresponding decrease in the cost-of-living-adjustment assumption for the funds with a 4.00% annual COLA max), and the adoption of an updated retiree mortality table that is developed using URS's actual retiree mortality experience. There were changes to several other demographic assumptions, but those changes had minimal impact on the Total Pension Liability (and actuarial accrued liability).

University of Utah — Schedule of Contributions for the years ended June 30

Noncontributory System	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 25,003,713	$ 25,936,009	$ 27,133,967	$ 28,061,542	$ 27,124,989	$ 35,151,747	$ 26,111,760	$ 25,170,054	$ 22,945,702	$ 23,467,419
Contribution in Relation to the Contractually Required Contribution	(25,003,713)	(25,936,009)	(27,133,967)	(28,061,542)	(27,124,989)	(35,151,747)	(26,111,760)	(25,170,054)	(22,945,702)	(23,467,419)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$113,936,327	$118,147,239	$123,098,874	$126,960,128	$132,937,438	$150,750,438	$155,167,201	$154,233,966	$161,351,781	$165,031,055
Contributions as a Percentage of Covered Payroll	21.9%	22.0%	22.0%	22.1%	20.4%	23.3%	16.8%	16.3%	14.2%	14.2%

Contributory System	**2018**	**2017**	**2016**	**2015**	**2014[1]**	**2013[1]**	**2012[1]**	**2011[1]**	**2010[1]**	**2009[1]**
Contractually Required Contribution	$ 754,331	$ 894,123	$ 1,058,540	$ 1,164,742	$ 1,096,361	$ 687,650	$ 403,590	$ 270,496	$ 1,397,844	$ 1,527,460
Contribution in Relation to the Contractually Required Contribution	(754,331)	(894,123)	(1,058,540)	(1,164,742)	(1,096,361)	(687,650)	(403,590)	(270,496)	(1,397,844)	(1,527,460)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 4,261,758	$ 5,051,541	$ 5,985,358	$ 6,580,469	$ 6,865,132	$ 5,696,793	$ 3,173,040	$ 1,517,153	$ 8,886,486	$ 9,710,488
Contributions as a Percentage of Covered Payroll	17.7%	17.7%	17.7%	17.7%	16.0%	12.1%	12.7%	17.8%	15.7%	15.7%

Public Safety System	**2018**	**2017**	**2016**	**2015**	**2014[1]**	**2013[1]**	**2012[1]**	**2011[1]**	**2010[2]**	**2009[2]**
Contractually Required Contribution	$ 789,054	$ 739,683	$ 682,809	$ 550,177	$ 486,603	$ 468,024	$ 427,891	$ 407,628	N/A	N/A
Contribution in Relation to the Contractually Required Contribution	(789,054)	(739,683)	(682,809)	(550,177)	(486,603)	(468,024)	(427,891)	(407,628)		
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
Covered Payroll	$ 2,220,291	$ 2,212,011	$ 2,117,893	$ 1,707,174	$ 1,642,290	$ 1,611,246	$ 1,635,298	$ 1,244,666		
Contributions as a Percentage of Covered Payroll	35.9%	33.4%	32.2%	32.2%	29.6%	29.0%	26.2%	32.7%		

Tier 2 Public Employees System	**2018**	**2017**	**2016**	**2015**	**2014[1]**	**2013[1]**	**2012[1]**	**2011[1]**	**2010[3]**	**2009[3]**
Contractually Required Contribution	$ 5,444,034	$ 6,127,098	$ 7,878,405	$ 6,995,912	$ 4,707,627	$ 2,945,339	$ 1,728,653	$ 1,158,587	N/A	N/A
Contribution in Relation to the Contractually Required Contribution	(5,444,034)	(6,127,098)	(7,878,405)	(6,995,912)	(4,707,627)	(2,945,339)	(1,728,653)	(1,158,587)		
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
Covered Payroll	$ 29,551,457	$ 33,628,505	$ 43,203,966	$ 38,336,356	$ 28,113,543	$ 24,400,464	$ 13,590,742	$ 6,498,259		
Contributions as a Percentage of Covered Payroll[5]	18.4%	18.2%	18.2%	18.2%	16.7%	12.1%	12.7%	17.8%		

Tier 2 Public Safety and Firefighter System	**2018**	**2017**	**2016**	**2015**	**2014[1]**	**2013[1]**	**2012[1]**	**2011[4]**	**2010[4]**	**2009[4]**
Contractually Required Contribution	$ 102,648	$ 98,360	$ 103,266	$ 50,424	$ 32,261	$ 8,581	$ 3,929	N/A	N/A	N/A
Contribution in Relation to the Contractually Required Contribution	(102,648)	(98,360)	(103,266)	(50,424)	(32,261)	(8,581)	(3,929)			
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -			
Covered Payroll	$ 350,573	$ 336,733	$ 353,411	$ 172,330	$ 117,742	$ 77,303	$ 37,598			
Contributions as a Percentage of Covered Payroll[5]	29.3%	29.2%	29.2%	29.3%	27.4%	11.1%	10.5%			

[1] Contractually Required Contributions, Contributions, and Covered Payroll include information for Tier 2 Employees. Prior to the implementation of GASB Statement No. 68, Tier 2 information was not separately available.
[2] The University of Utah began participating in Public Safety Systems in 2011.
[3] The Tier 2 Public Employees System was created in 2011.
[4] The University began contributing to the Tier 2 Public Safety and Firefighter System in 2012.
[5] For employees participating in the Public Employees and Public Safety Firefighters Tier 2 Systems, the University is required to contribute 18.44% and 29.28%, respectively, of the employees' salaries to the Systems.

The University makes the required contributions by paying approximately 10% in to the Tier 2 Systems while the remainder is contributed to the Tier 1 Systems, as required by law.

The amounts reported here reflect the net contributions to the Tier 2 systems rather than the total required.

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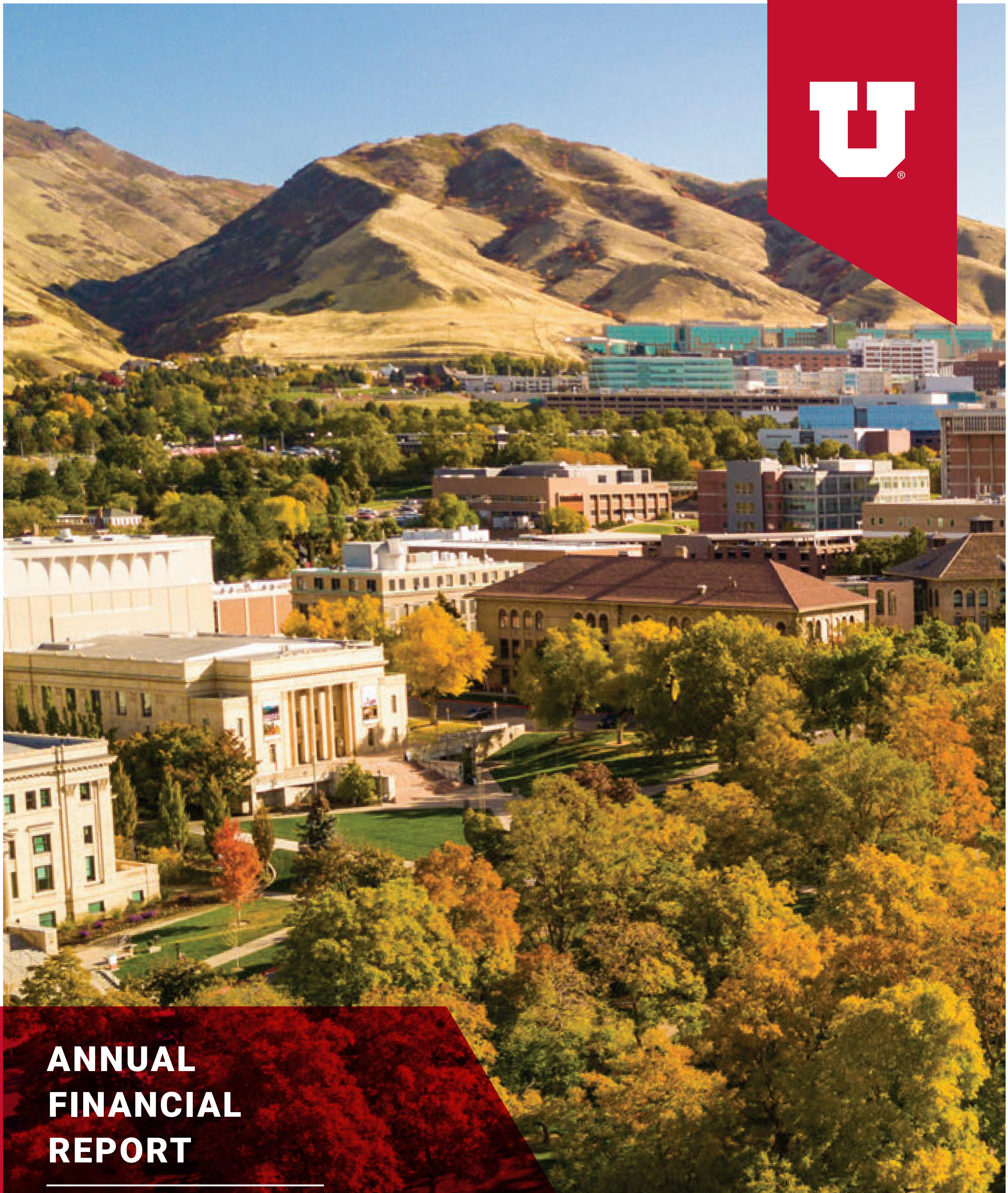

ANNUAL FINANCIAL REPORT

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