



2006 Annual Financial Report

UtahState
UNIVERSITY

A Component Unit of the State of Utah



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Contents

Message from the President	2-3
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-17
Financial Statements	18-45
Statement of Net Assets	20
Statement of Revenues, Expenses and Changes in Net Assets	21
Statement of Cash Flows	22-23
Notes to Financial Statements	24-45

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From the President.....

Utah State University is well on its way to another banner year. In September 2006, "Washington Monthly" ranked us in the top 25 public colleges in the nation and among the top 50 public or private universities in America.

According to the editors of "Washington Monthly," unlike other rankings, "this guide asks not what colleges can do for you, but what colleges are doing for the country." Their rankings focus on determining which U.S. colleges make the best use of tax dollars and produce graduates who help the country maintain a competitive edge in a global economy.

The recent appointment of Ned M. Weinschenker as the Vice President for Strategic Ventures and Economic Development will further our visibility. Dr. Weinschenker will lead the USU arm of the Utah Science Technology and Research Initiative (USTAR) to help further our co-leadership role with the University of Utah in developing opportunities for technology commercialization. The strength of the USTAR initiative comes from the state's two research universities working in tandem and complementing each other's research strengths. Our research strengths in personalized medicine, particularly in Alzheimer's research and in nutrition, have great potential. We are also excited that our microbial biotechnology research could have significant national impact in terms of foods, bio-remediation, waste management, bio-fuels and energy production.

With all of the great things going on at this campus, I know we will be continually recognized for our excellence. Students choose to attend Utah State year after year because of the many opportunities we provide them.

In fact, so many chose USU this year that our fall 2006 enrollment points to the end of a three-year slide in student enrollment numbers. Contributing to this turnaround has been a significant increase in first-year and transfer students. This success is due, primarily, to two factors. First, USU's first-year class of students is one of the largest in recent history, up 23 percent from last year. In addition, USU's out-of-state enrollments in the first-year class are up 41 percent. In the fall 2006, one in five students in USU's incoming first-year class is from out-of-state. Another important factor has been USU's success in increasing the number of transfer students by 10 percent, including a 27 percent increase in out-of-state transfer students.

Our success in this area has allowed us to continue our efforts to aggressively recruit students with personal visits to high schools in Utah, Wyoming, Idaho and Nevada. The visits involve open houses attended by me, and accompanied by many of the deans from the university's various colleges.

I am confident that the students who choose to come to USU will stay. Known for our hands-on undergraduate research, students at USU are given the opportunity to work with a variety of professors in a personalized setting in all disciplines ranging from the arts and humanities, to science and engineering.

For instance, USU speech language and pathology undergraduate students Stephanie Holt and Steve Sbjoblom created a specialized bed for a 6-year-old boy with cerebral palsy. The students, who were mentored by professor Beth Foley from Communicative Disorders and Deaf Education, said they not only enjoyed working on the project, but found the greatest satisfaction when they presented the bed to the family.

Students from USU's Engineers Without Borders club traveled the world during the past year by raising their own funds to visit Tibet and Peru. Mentored by USU Civil and Environmental Engineering faculty members William Grenney and Laurie McNeill, the students helped provide wells with clean water and proper sanitation conveniences for a small village outside Lima, Peru. In Tibet, the team visited six rural villages and evaluated housing needs, sampled water supplies and worked with the local school for nomad children.

Another group of Utah State students took the opportunity to volunteer during Spring Break in New Orleans, cleaning up the area that is still recovering from the devastation of Hurricane Katrina. Organized through the Alternative Breaks service program, 45 students paid their own way to go to New Orleans and were able to assist in the renovation of five hurricane-damaged homes, sort food to be distributed to families and pick up trash around flood-affected neighborhoods. Former ASUSU Service Vice President Belinda Lopez-Schultz said she had a new and better perspective of life after the trip.

While I have only given you a few examples of the many ways USU is making an impact in the world, it is obvious that we are a great place with great students and professors doing great things.

The financial statements that follow are prepared according to generally accepted accounting principles established by the Governmental Accounting Standards Board. These principles are recommended by the American Institute of Certified Public Accountants and the National Association of College and University Business Officers.

The certified public accounting firm of Hansen, Barnett and Maxwell has audited the financial statements for the year ended June 30, 2006. Their definitive opinion is included with this report. The financial highlights and statements are intended to establish the University's financial position as of June 30, 2006. They are also intended to reflect the flow of financial resources to the University during the fiscal year 2005-2006, while disclosing how these resources are applied in accomplishing our mission. We are pleased to share this report with you.



Stan L. Albrecht
President
Utah State University

HANSEN, BARNETT & MAXWELL

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Utah State University Board of Trustees,
Audit Committee, and Stan L. Albrecht, President
Logan, Utah

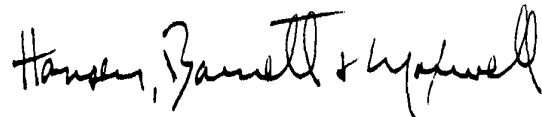
We have audited the accompanying statement of net assets of Utah State University (the "University"), a component unit of the State of Utah, as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of June 30, 2005 which have been presented for comparison only, have been derived from the financial statements of the University for the year ended June 30, 2005 and, in our report dated December 1, 2005, we expressed an unqualified opinion on those financial statements. We did not audit the financial statements of Utah State University Research Foundation (a component unit of the University), which represents 6% of total assets as of June 30, 2006 and 13% of total revenues for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Utah State University Research Foundation, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2006, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Hansen, Barnett & Maxwell". The signature is written in a cursive, flowing style.

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
October 6, 2006



Management's Discussion and Analysis

INTRODUCTION

The following unaudited Management's Discussion and Analysis (MD&A) includes an analysis of the financial condition and results of activities of Utah State University (University) for the fiscal year ended June 30, 2006. The analysis includes the University's condensed and comparative Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows along with related graphs and comparative data. Also included is management's perspective of the University's economic outlook.

The University is a component unit of the State of Utah. The financial statements include the accounts of Utah State University Agricultural Experiment Station, Utah State University Water Research Laboratory, Utah State University Engineering Experiment Station, Utah State University Ecology Center, Utah State University Cooperative Extension Service, Utah State University Uintah Basin Education Center and Utah State University Southeastern Utah Center for Continuing Education, which are entities separately funded by state appropriations.

The Utah State University Research Foundation and the Utah State University Development Foundation, component units of the University, have also been consolidated in these financial statements. The Utah State University Research Foundation is governed by a Board of Trustees appointed by the President of Utah State University, under the direction of the University Board of Trustees. The Utah State University Research Foundation is a dependent foundation of Utah State University. It is reported as a part of the University because its primary purpose is to support the mission of Utah State University in regards to research. The Utah State University Development Foundation is also governed by a Board of Trustees. The Utah State University Development Foundation is a dependant foundation of Utah State University and serves as the main fund raising arm of the University.

The Utah State University Research Foundation annually publishes audited financial statements. A copy of the audited financial statements

can be obtained from the Utah State University Research Foundation at 1695 North Research Parkway, North Logan, Utah 84341.

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The Management's Discussion and Analysis is designed to provide an easily readable analysis of Utah State University's (University's) financial activities based on facts, decisions and conditions known at the date of the auditor's report. Utah State University's financial statements for fiscal year 2006, with fiscal year 2005 prior year data presented for comparative purposes, are presented below. The financial statements, footnotes and this discussion are the responsibility of management. This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis – for Public Colleges and Universities*. These financial statements focus on the financial condition of the University, the results of operations and cash flows of the University as a whole. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

STATEMENT OF NET ASSETS

The Statement of Net Assets outlines the University's financial condition at fiscal year end. The University has selected a fiscal year beginning July 1, and ending June 30. This statement reflects the various assets, liabilities and net assets of the University as of the fiscal year ended June 30, 2006.

From the data presented, readers of the Statement of Net Assets have the information to determine the assets available to continue the operations of the University. They may also be able to determine how much the University owes vendors, investors and lending institutions. Finally, the Statement of Net Assets outlines the net assets (assets minus liabilities) available to the University and defines what that availability is.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt; reflects the University's equity in property, plant and equipment owned by the University. The second category is restricted net assets, which is further divided into two sub-categories, non-expendable and expendable. The corpus of non-expendable restricted resources as it pertains to endowments is only available for investment purposes. Donors have primarily restricted income derived from these investments to fund scholarships and fellowships. The corpus of non-expendable restricted resources as it pertains to loan funds is only available for the purpose of issuing loans to students under the terms of the various donor and Federal government agreements. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The last category, unrestricted net assets, discloses the net assets available to the University to be used for any lawful purpose of the University.

Condensed Statement of Net Assets

	June 30, 2006	June 30, 2005	Change	% Change
Assets				
Current assets	\$159,979,806	\$161,527,902	(\$1,548,096)	-0.96%
Non-current assets				
Capital assets - net	446,452,844	387,331,977	59,120,867	15.26%
Other	148,499,928	155,723,411	(7,223,483)	-4.64%
Total assets	<u>754,932,578</u>	<u>704,583,290</u>	<u>50,349,288</u>	<u>7.15%</u>
Liabilities				
Current liabilities	69,909,320	77,166,628	(7,257,308)	-9.40%
Non-current liabilities	118,401,754	121,284,776	(2,883,022)	-2.38%
Total liabilities	<u>188,311,074</u>	<u>198,451,404</u>	<u>(10,140,330)</u>	<u>-5.11%</u>
Net assets				
Invested in capital assets, net of debt	363,959,130	319,087,126	44,872,004	14.06%
Restricted - non-expendable				
Primarily scholarships and fellowships	51,768,038	53,463,328	(1,695,290)	-3.17%
Loans	12,808,912	12,913,258	(104,346)	-0.81%
Restricted - expendable	94,797,916	76,418,446	18,379,470	24.05%
Unrestricted	43,287,508	44,249,728	(962,220)	-2.17%
Total net assets	<u>\$566,621,504</u>	<u>\$506,131,886</u>	<u>\$60,489,618</u>	<u>11.95%</u>

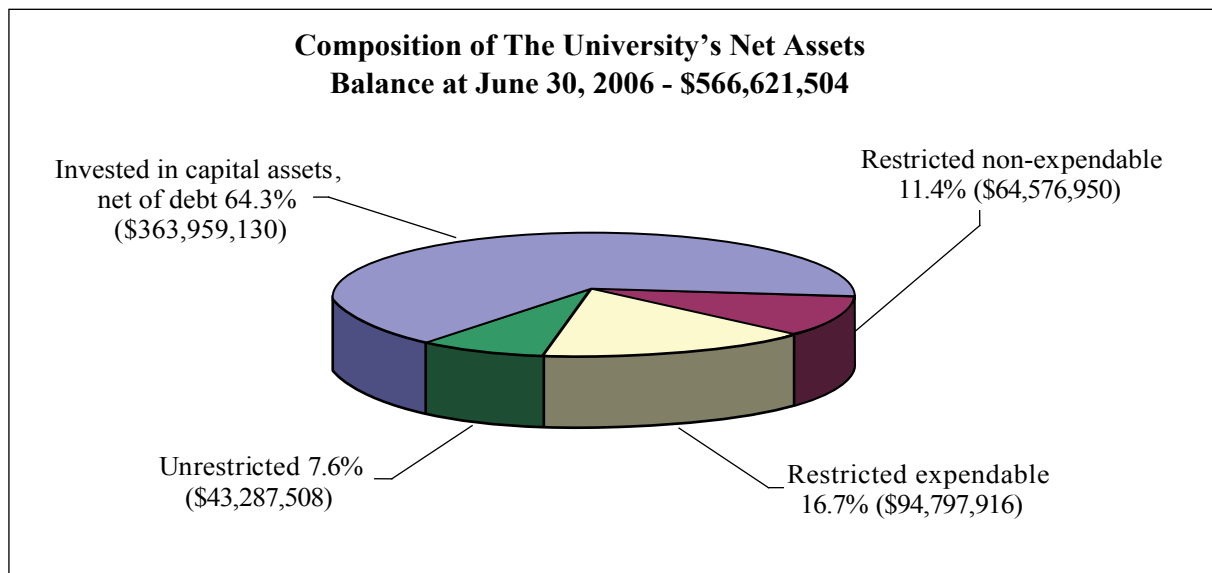
In fiscal year 2006, the University's total assets increased \$50,349,288. This increase was largely due to the increase in capital assets related to the construction of the University's new Student Living/Learning Center and new Merrill-Cazier Library.

The University's total liabilities dropped \$10,140,330 reflecting a decrease in long-term debt of \$3,492,700 and a reduction in deferred revenues in the amount of \$4,789,711. The University's commitment to suppliers was also reduced by approximately \$1,800,000.

Invested in capital assets, net of debt increased \$44,872,004 again reflecting the completion of the new Merrill-Cazier Library and construction related to the University's new Student Living/Learning Center.

Restricted - expendable net assets are up \$18,379,470 at fiscal year end. However, \$9,091,278 of this increase is due to a reclassification of endowment net appreciation from restricted - non-expendable to restricted - expendable. This is in accordance with Uniform Management of Institutional Funds Act, Section 13-29 of the *Utah Code* (see Note C). The remaining increase is largely due to increases in the restricted quasi-endowment funds (\$4,877,491), restricted plant funds (\$2,115,466) and the restricted state appropriated funds (\$3,720,828) all moderated by some declines in the other restricted funds.

The composition of the University's net assets is displayed in the following graph:



Net Assets
Fiscal Year Ended June 30

	2006	2005
Net assets		
Invested in capital assets, net of debt	\$363,959,130	\$319,087,126
Restricted		
Non-expendable	64,576,950	66,376,586
Expendable	94,797,916	76,418,446
Unrestricted	43,287,508	44,249,728
Total net assets	<u>\$566,621,504</u>	<u>\$506,131,886</u>

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Changes in total net assets as presented in the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of this statement is to present the revenues received by the University, both operating and non-operating, and the expenses paid by the University, operating and non-operating, and any other revenues, expenses, gains and losses received or expended by the University.

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating

expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Non-operating revenues are revenues received for which goods and services are not provided. For example, state appropriations are non-operating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services in return for those revenues. As noted on page 11, without the non-operating revenues, in particular the state appropriations and private gifts, the University would not be able to cover its costs of operations. These sources are critical to the University's financial stability and directly impact the quality of its programs.



Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Fiscal Year 2006	Fiscal Year 2005	Change	% Change
Operating revenues				
Tuition and fees (net of scholarship allowances: 2006 - \$24,992,633; 2005 - \$22,411,382)	\$62,404,674	\$60,977,894	\$1,426,780	2.34%
Contracts, grants and Federal appropriations	156,525,607	150,624,078	5,901,529	3.92%
Auxiliary enterprises	28,091,536	27,227,556	863,980	3.17%
Other	25,110,348	27,228,503	(2,118,155)	-7.78%
Total operating revenues	272,132,165	266,058,031	6,074,134	2.28%
Operating expenses				
Salaries and wages	190,973,865	186,841,215	4,132,650	2.21%
Employee benefits	72,807,323	70,058,886	2,748,437	3.92%
Other operating expenses	119,593,626	113,795,925	5,797,701	5.09%
Scholarships and fellowships	17,876,138	19,716,820	(1,840,682)	-9.34%
Depreciation	27,215,377	23,872,370	3,343,007	14.00%
Total operating expenses	428,466,329	414,285,216	14,181,113	3.42%
Operating loss	(156,334,164)	(148,227,185)	(8,106,979)	-5.47%
Non-operating revenues				
State appropriations	144,576,550	131,585,986	12,990,564	9.87%
Private gifts	7,362,761	4,953,746	2,409,015	48.63%
Other	10,263,389	10,866,924	(603,535)	-5.55%
Net non-operating revenues	162,202,700	147,406,656	14,796,044	10.04%
Income/(loss) before other revenues, expenses, etc.	5,868,536	(820,529)	6,689,065	815.21%
Other revenues/(expenses)				
State appropriations for capital purposes	43,079,936	4,061,683	39,018,253	960.64%
Grants, contracts and gifts for capital purposes	9,251,106	960,096	8,291,010	863.56%
Additions to permanent endowments	7,663,262	1,122,443	6,540,819	582.73%
Other additions/(deductions) - net	(5,373,222)	(5,689,314)	316,092	5.56%
Total other revenues	54,621,082	454,908	54,166,174	11907.06%
Increase/(decrease) in net assets	60,489,618	(365,621)	60,855,239	16644.35%
Net assets - beginning of year	506,131,886	506,497,507	(365,621)	-0.07%
Net assets - end of year	\$566,621,504	\$506,131,886	\$60,489,618	11.95%

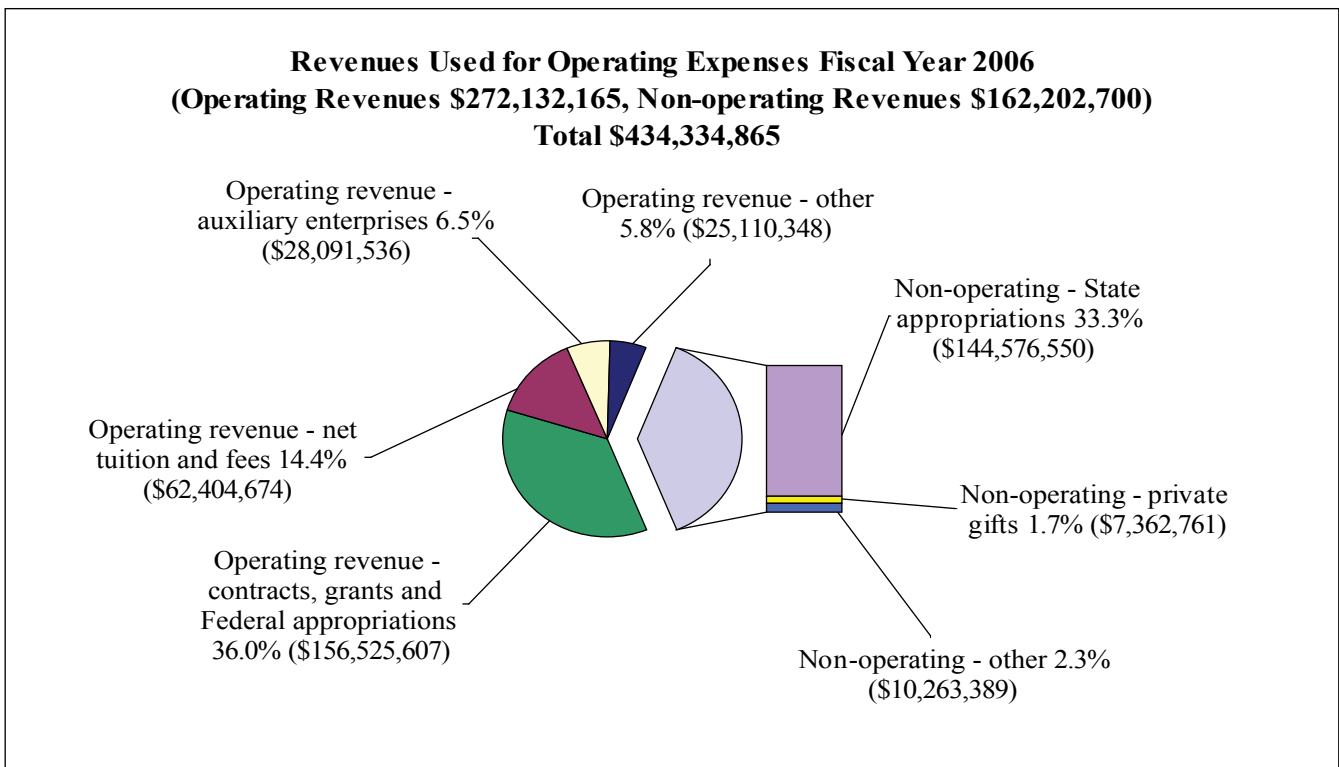
The Statement of Revenues, Expenses and Changes in Net Assets (SRECNA) reflects a \$60,489,618 increase in net assets for the fiscal year ended June 30, 2006.

As noted in the SRECNA, the University experienced a net operating loss in fiscal year 2006 of \$156,334,164. This operating loss highlights the University's dependency on non-operating revenues, state appropriations and private gifts, to meet its cost of operations and provide funds for the acquisition of capital equipment.

In fiscal year 2006, the University received \$144,576,550 from State appropriations and \$7,362,761 in private gifts to be used for operations. These revenues along with an additional \$10,263,389 from other sources covered all of the University's operating expenses for the fiscal year.

The University also receives funds for capital purposes and as additions to its permanent endowment funds. During fiscal year 2006, the University received \$43,079,936 from State appropriations and \$9,251,106 from grants, contracts and private gifts for capital purposes. Donations to the University's permanent endowment funds were \$7,663,262.

The following graph reflects the University's sources of revenue available to meet current operating costs.

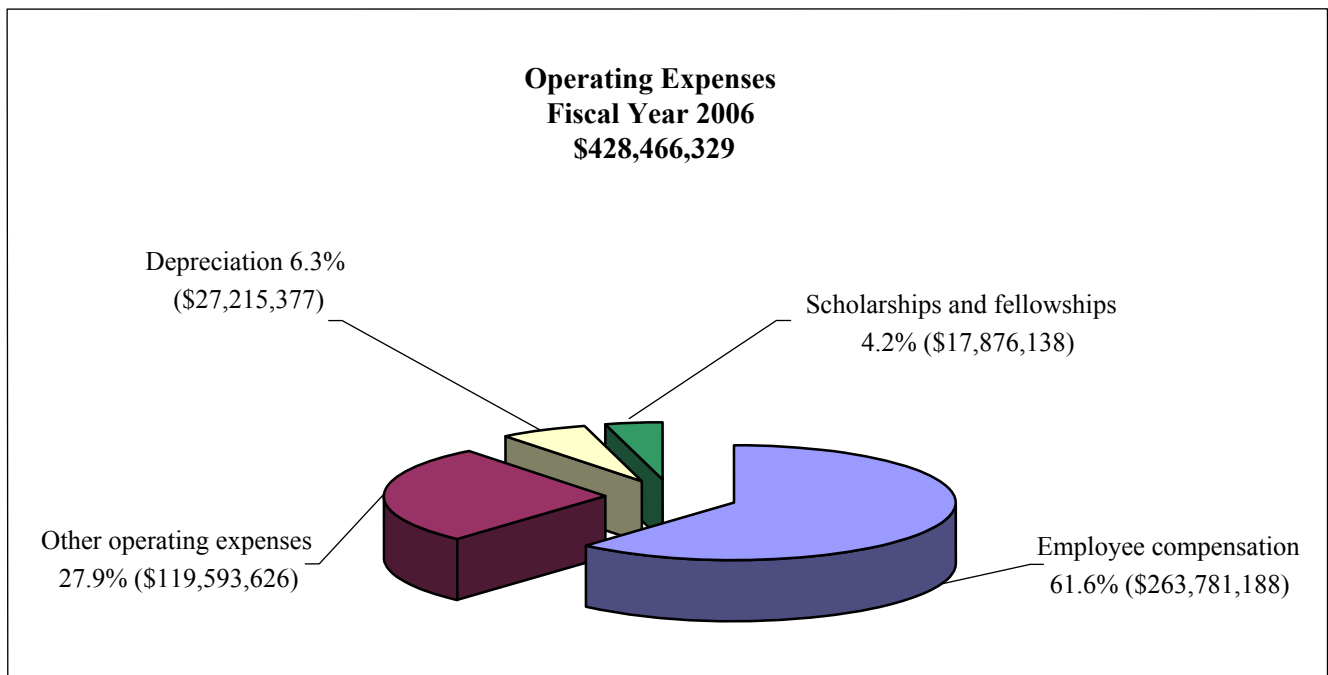


**Revenues Used for Operating Expenses
Fiscal Year Ended June 30**

	2006	2005
Operating revenues		
Contracts, grants and Federal appropriations	\$156,525,607	\$150,624,078
Net tuition and fees	62,404,674	60,977,894
Auxiliary enterprises	28,091,536	27,227,556
Other	25,110,348	27,228,503
Total operating revenues	<u>272,132,165</u>	<u>266,058,031</u>
Non-operating revenues		
State appropriations	144,576,550	131,585,986
Private gifts	7,362,761	4,953,746
Other	10,263,389	10,866,924
Total non-operating revenues	<u>162,202,700</u>	<u>147,406,656</u>
Total revenues used for operations	<u><u>\$434,334,865</u></u>	<u><u>\$413,464,687</u></u>

The University's most important resource is its outstanding faculty and staff. In fiscal year 2006, 61.6% of the University's total operating expenses was for employee compensation. Even though the major portion of the operating expenses are focused on employee compensation, the University still needs to be more competitive with peer institutions and non-academic employers in order to recruit and retain this important resource that so directly impacts the University's ability to accomplish its mission.

The graph below outlines the University's operating expenses by object.



Operating Expenses
Fiscal Year ended June 30

	<u>2006</u>	<u>2005</u>
Operating expenses		
Employee compensation	\$263,781,188	\$256,900,101
Other operating expenses	119,593,626	113,795,925
Depreciation	27,215,377	23,872,370
Scholarships and fellowships	17,876,138	19,716,820
Total operating expenses	<u>\$428,466,329</u>	<u>\$414,285,216</u>

STATEMENT OF CASH FLOWS

The final statement presented by Utah State University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University during the fiscal year. The statement is divided into five sections. The first section deals with operating cash flows and shows the net cash used by operating activities. The second section includes cash flows from non-capital financing activities. This section includes the cash received and spent for non-operating, non-investing and non-capital financing purposes. The third section includes cash flows from capital and related financing activities. This section includes the cash used for the acquisition and construction of capital and related items. The fourth section includes the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. A condensed version of these first four sections is provided below. The fifth section of the Statement of Cash Flows is not included in the Condensed Statement of Cash Flows. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets. This reconciliation is available for review in the Statement of Cash Flows on pages 22 and 23.

Condensed Statement of Cash Flows

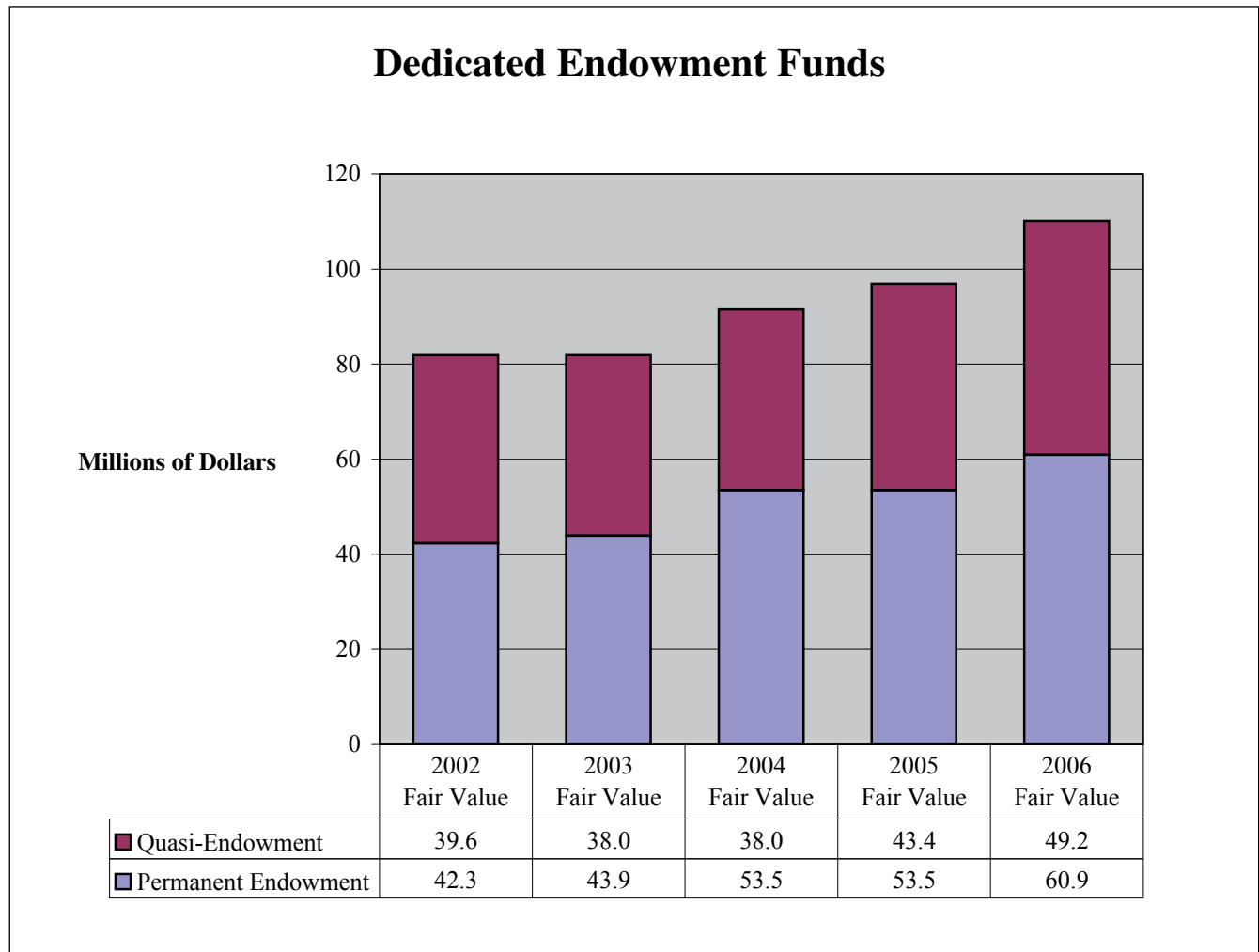
	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005</u>	<u>Change</u>	<u>% Change</u>
Cash provided (used) by:				
(1) Operating activities	(\$138,443,217)	(\$116,082,483)	(\$22,360,734)	-19.26%
(2) Non-capital financing activities	160,604,875	144,150,742	16,454,133	11.41%
(3) Capital and related financing activities	(42,617,426)	(3,748,028)	(38,869,398)	-1037.06%
(4) Investing activities	<u>14,390,577</u>	<u>(20,935,859)</u>	<u>35,326,436</u>	<u>168.74%</u>
Net increase/(decrease) in cash and cash equivalents	(6,065,191)	3,384,372	(9,449,563)	-279.21%
Cash and cash equivalents, beginning of year	<u>91,634,537</u>	<u>88,250,165</u>	<u>3,384,372</u>	<u>3.83%</u>
Cash and cash equivalents, end of year	<u>\$85,569,346</u>	<u>\$91,634,537</u>	<u>(\$6,065,191)</u>	<u>-6.62%</u>

The University's cash and cash equivalents declined by \$6,065,191 to a total of \$85,569,346. This decline is primarily due to the use of funds to complete construction projects as is indicated by the large increase in the utilization of cash for capital and related financing activities.

ENDOWMENT AND SIMILAR FUNDS

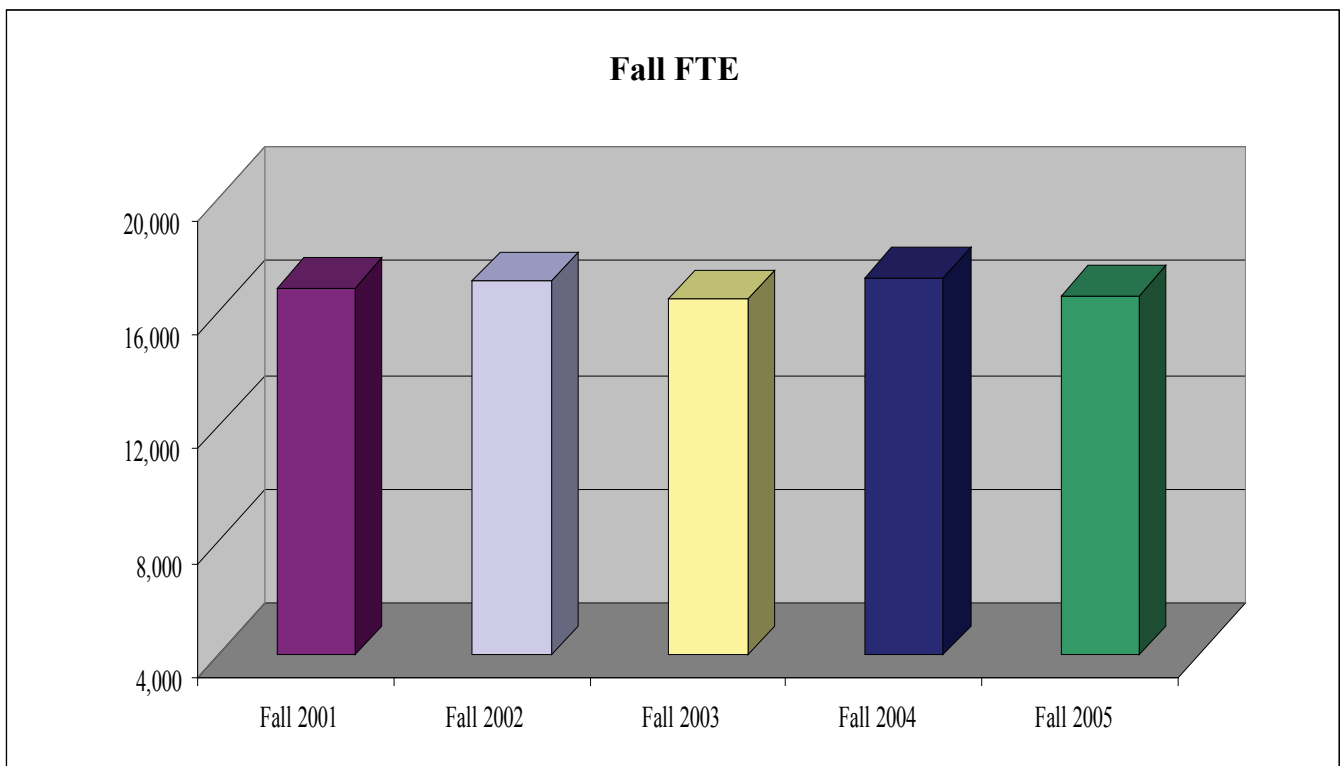
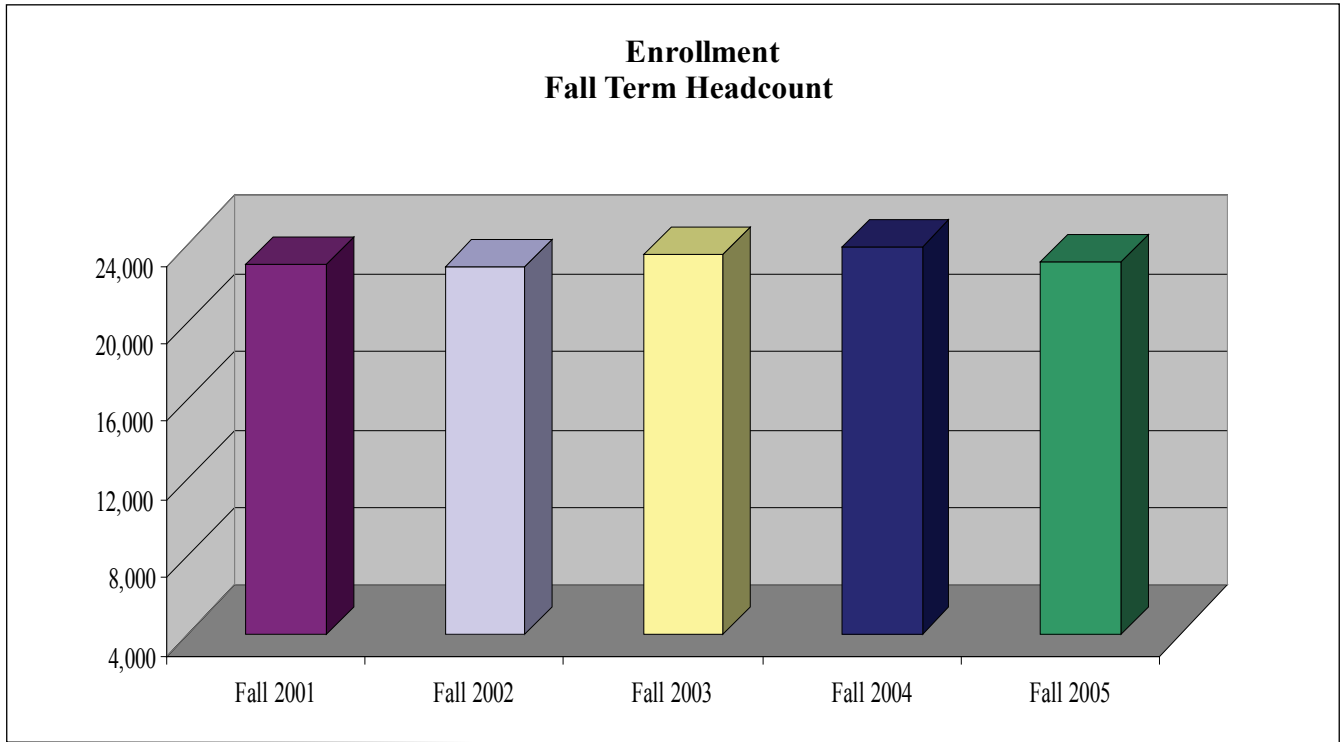
Over the years, the University has received donations with the stipulation that only the income earned is to be used. The principal must remain inviolate in perpetuity. The donors have primarily restricted the use of the income derived from these funds for scholarships and fellowships; therefore, the University's endowment plays a key role in providing scholarship funding to our students. During fiscal year 2006, the improving markets helped the University's endowment funds recover to some extent from the declines in prior years. However, there is still a great need in this area to establish a larger endowment base in order to support scholarship funding for students. The state appropriation has not kept pace with the cost of education, thus the University has been required to increase tuition. This increase in tuition places a greater demand on endowment earnings for scholarship purposes.

The carrying value of the endowment and similar funds as of June 30, 2006 was \$110,072,185, up \$13,144,183 over June 30, 2005. The carrying value is comprised of \$51,768,038 of restricted non-expendable assets and \$58,304,147 of restricted expendable net assets. The \$58,304,147 of restricted expendable net assets includes \$9,091,278 of net appreciation from the permanent endowment funds. Below is a graph presenting the carrying value of the endowment and similar funds over the past five years.



ENROLLMENT

Below are graphs presenting the head count and full time equivalent student enrollment based on fall semester for the past five years. The decrease in enrollment in the fall of 2005 is significant in that student building fees are pledged to pay bonded debt. The university is working to increase enrollment through enhanced recruitment efforts and programs to improve retention.



CAPITAL ASSET AND DEBT ADMINISTRATION

The University completed the Merrill Library Replacement project in fiscal year 2006. This project replaced the original Merrill Library building by integrating the existing 116,000 square foot Cazier Science and Technology Library with an additional 173,000 square feet of space. With this new construction, all library functions are now housed in one building referred to as the Merrill-Cazier Library.

On July 15, 2004 the University issued \$40,470,000 Student Fee and Housing System Revenue Bonds, Series 2004 (See Note I). The funds from this bond are being used to acquire and construct additions to the on-campus Housing System by constructing the Living/Learning Center on ground owned by the University at the Logan, Utah Campus. The project includes the construction of six multiple story residential facilities, the construction of a 600 stall, three-story parking terrace and upgrades to the food service facilities within the Taggart Student Center to provide, in part, dining services to the occupants of the new residential facilities. These facilities will be completed during fiscal year 2007.

The University is also engaged in projects to enhance athletic facilities at the Dick Romney Stadium. Phase one of the project was completed early in fiscal year 2006 and included an upgrade to the south plaza with a new ticket office and concessions stand. Phase two began July 2006. This phase includes a three-story facility that will house a new sports medicine facility, an open lobby, offices for the head trainer and staff, an intern development area and a home locker room that can serve 125 athletes. Phase two will cost approximately \$10.5 million and will be funded with existing project funds from the 2004, Series A Stadium/Spectrum and Student Recreation Bonds supplemented by private donations.

There are no current plans to proceed with additional major capital financing in fiscal year 2007.

ECONOMIC OUTLOOK

The State of Utah continues to experience a stable economy with sizeable revenue surpluses. Expectations of sustained economic stability in the foreseeable future improve the opportunity for increased legislative funding support for USU priorities. For fiscal year, 2006, the University experienced a 10% increase in State appropriations. Student tuition and fees also increased 2% during this period.

Overall, fall 2006 enrollment points to the end of a three-year decline in student enrollments. Strong, focused recruiting efforts have resulted in one of the largest first-year classes in recent history, up 23% over last year. The number of transfer students has also increased by 10% over the same period. The success at stabilizing enrollments, positions USU for true enrollment gains in the upcoming years through sustained recruitment efforts.

Utah State University's financial strengths include a diverse source of revenues, including those from the State of Utah, student tuition and fees, sponsored research programs, private support, and self-supporting enterprises. The different sources of revenue provide financial stability and protection against difficult economic times.

Management believes that USU's strong financial position will continue to enable the University to accomplish its mission of being one of the nation's premier student-centered, Land-Grant and Space-Grant universities.



David T. Cowley
Associate Vice President for Financial Services/
Controller
Utah State University

Financial Statements



Statement of Net Assets
June 30, 2006

	2006	2005 Comparative Only
Assets		
Current Assets		
Cash and cash equivalents (Notes A, B and D)	\$80,296,065	\$88,153,189
Short-term investments (Notes B and D)	7,490,835	3,307,772
Due from State Treasurer	758,327	847,518
Accounts receivable - net of allowances \$269,911 (Note E)	51,456,625	49,574,407
Credits receivable (Note E)	860,361	774,674
Notes receivable - net of allowances \$136,027 (Note E)	14,371,272	14,255,867
Inventories (Note A)	3,489,327	3,226,615
Prepaid expenses	1,256,994	1,387,860
Total current assets	159,979,806	161,527,902
Non-current assets		
Restricted		
Cash and cash equivalents (Notes A, B and D)	5,273,281	3,481,348
Short-term investments (Notes B and D)	470,765	
Investments (Notes C and D)	53,820,329	48,564,929
Accounts receivable (Note E)	1,537,017	5,540,642
Real estate held for resale	292,530	293,824
Accounts receivable (Note E)	1,470,442	1,743,363
Investments (Note C and D)	85,608,853	96,072,594
Real estate held for resale	26,711	26,711
Property, plant and equipment - net (Note F)	446,452,844	387,331,977
Total non-current assets	594,952,772	543,055,388
Total assets	754,932,578	704,583,290
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note H)	42,238,641	44,831,277
Bonds, notes and contracts payable (Notes I and J)	4,685,159	5,057,740
Liability for compensated absences (Note I)	2,858,174	2,396,368
Liability for early retirement (Note I)	2,094,531	1,999,022
Deferred revenues and deposits (Note I)	17,616,544	22,606,255
Funds held for others	416,271	275,966
Total current liabilities	69,909,320	77,166,628
Non-current liabilities		
Bonds, notes and contracts payable (Notes I and J)	103,371,551	106,491,670
Liability for compensated absences (Note I)	10,228,645	9,614,451
Liability for early retirement (Note I)	3,411,558	3,988,655
Deferred revenue and deposits (Note I)	1,390,000	1,190,000
Total non-current liabilities	118,401,754	121,284,776
Total liabilities	188,311,074	198,451,404
Net assets		
Invested in capital assets - net debt	363,959,130	319,087,126
Restricted for:		
Non-expendable		
Primarily scholarships and fellowships	51,768,038	53,463,328
Loans	12,808,912	12,913,258
Expendable		
Research, instruction and public service	87,557,831	71,293,827
Capital projects	7,240,085	5,124,619
Unrestricted	43,287,508	44,249,728
Total net assets	\$566,621,504	\$506,131,886

*Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006*

	2006	2005 Comparative Only
Operating revenues		
Tuition and fees (net of scholarship allowances of \$24,992,633)	\$62,404,674	\$60,977,894
Federal appropriations	4,519,483	4,551,497
Federal grants and contracts	130,034,950	128,248,720
State grants and contracts	8,925,577	6,895,456
Local grants and contracts	2,335,012	2,365,285
Private grants and contracts	10,710,585	8,563,120
Sales and services of educational departments	12,321,813	11,933,370
Conference and institutes (non-credit)	5,955,768	5,838,699
Service departments	1,420,515	2,219,825
Auxiliary enterprises	28,091,536	27,227,556
Other	5,412,252	7,236,609
Total operating revenues	272,132,165	266,058,031
Operating expenses		
Salaries and wages	190,973,865	186,841,215
Employee benefits	72,807,323	70,058,886
Other operating expenses	119,593,626	113,795,925
Scholarships and fellowships	17,876,138	19,716,820
Depreciation	27,215,377	23,872,370
Total operating expenses	428,466,329	414,285,216
Operating loss	(156,334,164)	(148,227,185)
Non-operating revenues/(expenses)		
State appropriations	144,576,550	131,585,986
State grants	2,159,967	1,207,121
Private gifts	7,362,761	4,953,746
Investment income	8,103,422	9,220,735
Other		439,068
Non-operating revenues - net	162,202,700	147,406,656
Income/(loss) before other revenues/(expenses)	5,868,536	(820,529)
Other revenues/(expenses)		
State appropriations for capital purposes	43,079,936	4,061,683
State grants and contracts for capital purposes	394,679	105,321
State land grant revenues	188,185	238,335
Private grants and gifts for capital purposes	8,856,427	854,775
Interest on capital asset related debt	(3,937,323)	(4,262,441)
Additions to permanent endowments	7,663,262	1,122,443
Other additions/(deductions) - net	(1,624,084)	(1,665,208)
Net other revenues/(expenses)	54,621,082	454,908
Increase/(decrease) in net assets	60,489,618	(365,621)
Net assets - beginning of year	506,131,886	506,497,507
Net assets - end of year	\$566,621,504	\$506,131,886

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

	2006	2005 Comparative Only
Cash flows from operating activities		
Tuition and fees	\$60,631,358	\$60,818,756
Federal appropriations	4,519,483	4,785,216
Contracts and grants	145,915,784	145,739,034
Sales and services of educational departments	12,453,434	11,851,532
Conferences and institutes (non-credit)	5,955,768	5,934,030
Service departments	1,497,538	2,273,047
Auxiliary enterprises	27,823,061	27,686,566
Other operating receipts	5,778,415	6,733,469
Payments to employees for salaries and benefits	(262,357,933)	(252,373,905)
Payments to suppliers	(123,195,085)	(108,013,355)
Payments for scholarships and fellowships	(17,876,138)	(19,716,820)
Loans issued to students	(2,969,270)	(4,781,674)
Loan payments received from students	3,380,368	2,981,621
Net cash used by operating activities	<u>(138,443,217)</u>	<u>(116,082,483)</u>
Cash flows from non-capital financing activities		
State appropriations	145,617,908	130,920,441
State grants	2,159,967	1,207,121
Private gifts	12,904,497	11,458,328
Other additions/(deductions)	(77,497)	564,852
Net cash provided by non-capital financing activities	<u>160,604,875</u>	<u>144,150,742</u>
Cash flows from capital and related financing activities		
State appropriations for capital purposes	43,169,127	4,548,438
State grants and contracts for capital purposes	394,679	105,321
State Land Grant revenues	188,185	238,335
Private grants and gifts for capital purposes	3,097,666	5,255,629
Proceeds from capital debt	1,736,444	40,832,219
Other additions and deductions - net	4,013,570	4,912,786
Cash paid for capital assets	(86,347,940)	(50,321,748)
Repayment of capital debt and leases	(5,229,144)	(5,473,300)
Interest paid on capital assets related debt	(3,640,013)	(3,845,708)
Net cash used by capital and related financing activities	<u>(42,617,426)</u>	<u>(3,748,028)</u>
Cash flows from investing activities		
Purchases of investments	(35,982,996)	(91,312,467)
Proceeds from sale of investments	42,788,883	64,028,864
Interest and dividends received from investments	7,584,690	6,347,744
Net cash provided/(used) by investing activities	<u>14,390,577</u>	<u>(20,935,859)</u>
Net increase/(decrease) in cash and cash equivalents	(6,065,191)	3,384,372
Cash and cash equivalents, beginning of year	91,634,537	88,250,165
Cash and cash equivalents, end of year	<u>\$85,569,346</u>	<u>\$91,634,537</u>

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

	2006	2005 Comparative Only
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	(\$156,334,164)	(\$148,227,185)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	27,215,377	23,872,370
Changes in assets and liabilities		
Accounts receivable	(2,339,819)	(185,845)
Inventories	(262,712)	35,140
Prepaid expenses	130,866	(406,427)
Accounts payable and accrued expenses	(2,848,231)	8,115,425
Deferred revenues and deposits	(4,507,802)	92,470
Compensated absences and early retirement	594,412	2,199,273
Net student loan activity	(91,144)	(1,577,704)
Net cash used by operating activities	(\$138,443,217)	(\$116,082,483)
Non-cash investing, capital and financing activities		
Fixed assets acquired by incurring capital lease obligations	\$1,680,891	\$307,982
Change in fair value of investments recognized as a component of investment income	\$821,316	\$2,679,803
Amortization of original issue discount, reoffering premiums and net loss on refunding of bonds	(\$9,572)	\$196,912
Gift of capital assets reducing proceeds of private gifts and grants	\$5,625,958	\$415,387

Notes to Financial Statements



A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Utah State University (the University) are described below.

Basis of Presentation

The University is a component unit of the State of Utah. The financial statements include the accounts of Utah State University Agricultural Experiment Station, Utah State University Water Research Laboratory, Utah State University Engineering Experiment Station, Utah State University Ecology Center, Utah State University Cooperative Extension Service, Utah State University Uintah Basin Education Center and Utah State University Southeastern Utah Center for Continuing Education, which are entities separately funded by State appropriations.

The Utah State University Research Foundation and the Utah State University Development Foundation, component units of the University, have also been consolidated in these financial statements. The Utah State University Research Foundation is governed by a Board of Trustees appointed by the President of Utah State University, under the direction of the University Board of Trustees. The Utah State University Research Foundation is a dependent foundation of Utah State University and is reported as a part of the University because its primary purpose is to support the mission of Utah State University in regards to research and public service. The Utah State University Development Foundation is also governed by a Board of Trustees. The Utah State University Development Foundation is a dependent foundation of Utah State University and serves as the main fund raising arm of the University.

The Utah State University Research Foundation annually publishes audited financial statements. A copy of the audited financial statements can be obtained from the Utah State University Research Foundation at 1695 North Research Parkway, North Logan, Utah 84341.

Basis of Accounting

For financial reporting purposes, the University is considered a special purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with an original maturity of three months or less. (See Note B)

Investments

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain/(loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

Inventories

The value of the University Bookstore inventory is recorded at average cost determined using the retail inventory method while all other inventory values are essentially lower of cost (first-in, first-out) or market. Obsolete or unusable items are reduced to net realizable values.

Non-current Assets

Assets that are externally restricted to make debt service payments, maintain sinking or reserve funds or that represent assets of the University's endowments are classified as non-current restricted assets. Other non-current assets include those receivables that will not be realized within the next year, investments and real estate held for resale and the University's property, plant and equipment net of depreciation.

Property, Plant and Equipment

The University componentizes certain research facilities for depreciation purposes. When existing research facilities are componentized, adjustments are made to update accumulated depreciation for the various components through the current fiscal year end. The adjustments are included as "depreciation" in the Statement of Revenues, Expenses and Changes in Net Assets and are reported as part of the "property, plant and equipment - net" balance on the Statement of Net Assets.

All buildings are carried on an estimated historical cost basis, at cost at date of acquisition or at fair value at date of donation in the case of gifts. All other physical plant and equipment are stated at cost when purchased or constructed, or fair value at date of donation in the case of gifts.

The University capitalizes all equipment with a unit cost of \$5,000 or more and an estimated useful life greater than one year. Buildings costing \$50,000 or more are capitalized, as are improvements to buildings costing \$50,000 or more that extend the useful life of the building. Improvements other than buildings costing \$50,000 or more are also capitalized. All library books inventoried in the University's recognized libraries are capitalized regardless of cost. Interest is capitalized when incurred in connection with the financing of construction projects. For the year ended June 30, 2006, the University capitalized \$1,512,927 in connection with construction projects.

The University computes depreciation using the straight-line composite method over the estimated

useful life of the assets. The estimated useful lives are as follows:

Buildings	10 - 40 years
Improvements other than buildings	5 - 20 years
Equipment	3 - 15 years
Library	20 years

The University provides repair and replacement reserves for certain properties as required by the related bond indentures. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Deferred Revenues

Deferred revenues consist primarily of amounts received from contract and grant sponsors that have not yet been earned, amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. (See Note I)

Compensated Absences

Sick leave is not accrued but is reported in the period of actual expenditure. Sick leave does not vest to the employee but is allowed on an earned time basis. At the end of each calendar year, employees who have earned 48 days of sick leave may convert up to four days of sick leave to annual leave subject to other restrictions of the University.

Annual leave, including converted sick leave, is accrued and reported as earned. Employees are allowed to carry a maximum of 34 days annual leave. The 34 days is variable depending on the number of sick leave days the employee is allowed to convert at calendar year end.

Gifts

The University received \$373,885 of gifts-in-kind, which were recorded as revenue and expense during the fiscal year ended June 30, 2006.

Non-current Liabilities

Non-current liabilities include principal amounts of revenue bonds payable, notes payable and contracts payable that are due beyond the next fiscal year; estimated amounts for accrued compensated absences; early retirement and long-term deposits to assist with the cash flow requirements for the University's contracts and grants.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt:

This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – non-expendable:

Non-expendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. Also included in this category are funds received from donors with the restriction that the funds will be used to provide short and long-term loans to students with all collections, both principal and interest, also being restricted for this purpose.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, State appropriations and sales and services of educational departments. These resources are used for transactions relating to the educational and general operations of the University and may be

used at the discretion of the governing board to meet current expenses for any purpose. These resources also include Auxiliary Enterprises, which are substantially self-supporting activities that provide services primarily for students.

Income Taxes

The University is excluded from income taxes under Section 115 (1) of the Internal Revenue Code. The University is also considered a Section 501 (c) (3) corporation.

Classification of Revenues

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions such as; (1) student tuition and fees, net of scholarship allowances, (2) sales and services of Auxiliary Enterprises and other departments, (3) most Federal, State and local contracts and grants and Federal appropriations and (4) interest on institutional student loans.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Examples of non-operating revenues would include State appropriations and investment income.

Scholarship Allowances

Student tuition and fee revenues are reported net of scholarship allowances in the Statement of Revenue, Expenses and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or non-governmental

programs, are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance to eliminate overstating total revenues to the University and properly record the revenues at the original source.

Segment Reporting

The University, through the Utah State Board of Regents, issues revenue bonds to finance certain activities. The University has deemed it not necessary to report segments on these bond issues, based upon the criteria provided in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Reclassification

Certain amounts in the 2005 financial statements have been reclassified to conform with the classifications in the 2006 financial statements. The reclassification had no effect on the change in net assets reported for the year ended June 30, 2005.

Prior Year's Presentation

Summary totals and other specific dollar amounts for the prior fiscal year (2005) are presented for comparison purposes only.

B. CASH & CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash & cash equivalents and short-term investments 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 when legal requirements dictate the use of separate accounts. The cash balances and cash float from outstanding checks are invested principally in short-term investments that conform to the provisions of the *Utah Code*. It is the practice

of the University that the investments ordinarily be held to maturity at which time the par value of the investments will be realized.

The Utah State Treasurer's Office operates the Utah Public Treasurer's Investment Fund (PTIF) which is invested in accordance with the State Money Management Act. The State Money Management Council provides regulatory oversight for the PTIF. The PTIF is available for investment of funds administered by any Utah Public Treasurer.

At June 30, 2006, cash & cash equivalents and short-term investments consisted of:

Cash & Cash Equivalents	
Cash	\$1,879,247
Money market funds	939,742
Overnight repurchase agreements	6,382,942
Time certificates of deposit	52,000,000
Utah's Public Treasurer's Investment Fund	<u>24,367,415</u>
Total	<u><u>\$85,569,346</u></u>
Short-Term Investments	
Obligations of the U.S. Government and its agencies	<u>\$7,961,600</u>
Total	<u><u>\$7,961,600</u></u>

C. 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 market or appraised value on the date of receipt. If no market or appraised value is available, investments received as gifts are recorded at a nominal value. 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 Management of Institutional Funds Act, Section 13-29 of the *Utah Code*, the governing board may appropriate for expenditure as much of the net appreciation, realized and unrealized, of an endowment's corpus as is prudent under the facts and circumstances prevailing at the time of the action or decision. The appropriation must be for the purposes for which the endowment is established.

The endowment income spending policy at June 30, 2006, is 4% of the twelve quarter moving average of the market value of the endowment pool. The spending policy is reviewed periodically and any necessary changes are made.

The amount of net appreciation on investments of donor-restricted endowments that was available for authorization for expenditure at June 30, 2006, was \$9,091,278. The net appreciation is a component of restricted expendable net assets.

At June 30, 2006, the investment portfolio composition was as follows:

Obligations of the U.S. Government and its agencies	\$84,776,642
Mutual Funds	47,614,846
Common and preferred stocks	6,340,677
Corporate bonds and notes	697,017
Total investments	<u><u>\$139,429,182</u></u>

D. DEPOSITS AND INVESTMENTS

The Utah State Money Management Act defines the types of securities authorized as appropriate investments for the University 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.

Statutes authorize the University to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations,

one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes and bonds; 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 of certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

Through April 2005, statutes also authorized the University to invest funds acquired by gifts, private grants and the corpus of funds functioning as endowments according to the rules of the State Money Management Council. Rule 2 allows the University to invest these funds in any of the above investments or any of the following subject to satisfying certain criteria: professionally managed pooled or commingled investment funds, or mutual funds which satisfy certain criteria; common stock, convertible preferred stock or convertible bonds; corporate bonds or debentures; and alternative investments as defined in the rule. As of May 2005, state law allows endowment funds of higher education institutions to be invested in accordance with the Utah State Board of Regents (Board of Regents) default investment guidelines or in accordance with policies adopted by the Institution's Board of Trustees and approved by the Board of Regents. For the period ending June 30, 2006, the Board of Regents required all institutions to invest endowment funds in accordance with Rule 2 of the Utah State Money Management Act.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the State Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the State Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses - net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

Deposits

At June 30, 2006, the carrying amounts of the University's deposits and bank balances were \$53,701,843 and \$57,199,591, respectively. The bank balances of the University were insured for \$418,015 by the Federal Deposit Insurance Corporation. The bank balances in excess of \$418,015 were uninsured and uncollateralized, leaving \$56,781,576 exposed to custodial credit risk. All deposits were held by a qualified depository as defined by the State Money Management Act. The State of Utah does not require collateral on deposits.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the University's deposits may not be returned to the University. The University does not have a formal deposit policy for custodial credit risk.

Investments

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 the investments that are in the possession of an outside party. The University does not have a formal investment policy for custodial credit risk. At June 30, 2006, the U.S. Treasury and agencies' debt securities investments were held in a University account at the University's custodial bank, Wells Fargo Bank.

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 State Money Management Council. For University funds acquired by gifts, grants, or the corpus of funds functioning as endowments, Rule 2 of the State Money Management Council limits investments in equity securities and

fixed income securities to no more than 4% of all funds in any one issuer and no more than 25% of all funds in any one industry. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the State Money Management Council limits 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 June 30, 2006, there were no single issuer investments that exceeded 5%.



As of June 30, 2006, the University had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)		
		Less than 1	1-5	6-10
Money market funds	\$939,742	\$939,742		
Repurchase agreements	6,382,942	6,382,942		
Utah Public Treasurer's Investment Fund	24,367,415	24,367,415		
U.S. Treasury securities	577,522	99,234	\$350,397	\$127,891
Government National Mortgage Assoc.	17,919			17,919
U.S. agencies	92,142,801	22,305,867	69,711,106	125,828
Corporate bonds and notes	697,017	50,982	530,645	115,390
Mutual funds - short term	160,193		160,193	
Mutual funds - bonds	3,724,609		3,659,920	64,689
Mutual funds - U.S. agencies	7,794		7,794	
Totals	129,017,954	\$54,146,182	\$74,420,055	\$451,717
Common and preferred stock	6,340,677			
Mutual funds - equities	43,722,250			
Total	\$179,080,881			

Investment Type	Fair Value	Quality Rating		
		AAA	Unrated	No Risk
Money market funds	\$939,742	\$939,742		
Repurchase agreements	6,382,942		\$6,382,942	
Utah Public Treasurer's Investment Fund	24,367,415		24,367,415	
U.S. Treasury securities	577,522			\$577,522
Government National Mortgage Association	17,919			17,919
U.S. agencies	92,142,801	92,142,801		
Corporate bonds and notes	697,017		697,017	
Mutual funds - short term	160,193		160,193	
Mutual funds - bonds	3,724,609		3,724,609	
Mutual funds - U.S. agencies	7,794		7,794	
Totals	\$129,017,954	\$93,082,543	\$35,339,970	\$595,441

E. ACCOUNTS, CREDITS AND STUDENT LOANS RECEIVABLE

Accounts receivable consist of the following at June 30, 2006:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Contracts and grants	\$41,707,377		\$41,707,377
Pledges receivable	2,437,937	\$2,862,481	5,300,418
Auxiliary and service enterprises	1,334,854		1,334,854
Other activities	5,102,918	144,978	5,247,896
State appropriations	1,143,450		1,143,450
Total accounts receivable	<u>51,726,536</u>	<u>3,007,459</u>	<u>54,733,995</u>
Less allowance for doubtful accounts	(269,911)		(269,911)
Net accounts receivable	<u>\$51,456,625</u>	<u>\$3,007,459</u>	<u>\$54,464,084</u>

Credits receivable, \$860,361, reflect amounts due from vendors doing business primarily with the University's Bookstore.

Student loans receivable are comprised primarily of loans issued through the Federal Perkins Loan Program (FPLP) and short-term loans issued from funds set aside by the University for that purpose.

The Federal government currently provides 75% of the FPLP funding with the University providing the balance. The FPLP loans provide for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The FPLP loans are payable after completion of academic degrees or termination as a student with a term of 10 years and an interest rate of 5%. In the event the University should withdraw from the FPLP or the government were to cancel the program, the amount the University would be liable to the Federal government for, as of June 30, 2006, is \$10,568,278.

As the University determines that loans are uncollectible and not eligible for reimbursement by the Federal government, the loans are written off and assigned to the U.S. Department of Education.

Other University short-term loans have a term of two to four months and carry an interest rate of 7% to 12%. The 12% rate applies if the loan becomes delinquent. Student loans receivable are as follows:

	<u>Total Receivable</u>	<u>Allowance for Uncollectible Loans</u>	<u>Net Receivable</u>
Federal Perkins Loan Program	\$12,201,522	\$123,830	\$12,077,692
Others	2,305,777	12,197	2,293,580
Total notes receivable	<u>\$14,507,299</u>	<u>\$136,027</u>	<u>\$14,371,272</u>

F. PROPERTY, PLANT AND EQUIPMENT

The University's investment in property, plant and equipment consists of the following:

	Balance June 30, 2005	Additions	Transfers	Disposals	Balance June 30, 2006
Property, plant and equipment not depreciated					
Land	\$12,782,532	\$5,600,901		(\$74)	\$18,383,359
Construction in progress	40,401,472	73,077,848	(\$76,534,638)	(854,604)	36,090,078
Total capital assets not depreciated	<u>\$53,184,004</u>	<u>\$78,678,749</u>	<u>(\$76,534,638)</u>	<u>(\$854,678)</u>	<u>\$54,473,437</u>
Other property, plant and equipment					
Buildings	\$380,200,577	\$1,137,759	\$68,376,345	(\$2,785,349)	\$446,929,332
Improvements other than buildings	57,107,247	237,307	2,972,665		60,317,219
Equipment	100,692,233	8,599,362	5,185,628	(11,788,548)	102,688,675
Library collections	58,583,320	3,320,721		(133,713)	61,770,328
Intellectual property	3,029,544			(3,029,544)	0
Total other capital assets	<u>599,612,921</u>	<u>13,295,149</u>	<u>76,534,638</u>	<u>(17,737,154)</u>	<u>671,705,554</u>
Less accumulated depreciation					
Buildings	(139,033,856)	(12,711,706)		2,785,349	(148,960,213)
Componetization adjustments		(904,676)			(904,676)
Total buildings	<u>(139,033,856)</u>	<u>(13,616,382)</u>	<u>0</u>	<u>2,785,349</u>	<u>(149,864,889)</u>
Improvements other than buildings	(30,426,444)	(2,099,177)			(32,525,621)
Equipment	(65,215,447)	(8,286,135)		8,654,057	(64,847,525)
Library collections	(30,031,815)	(2,456,297)			(32,488,112)
Intellectual property	(757,386)	(757,386)		1,514,772	0
Total accumulated depreciation	<u>(265,464,948)</u>	<u>(27,215,377)</u>	<u>0</u>	<u>12,954,178</u>	<u>(279,726,147)</u>
Other capital assets - net	<u>\$334,147,973</u>	<u>(\$13,920,228)</u>	<u>\$76,534,638</u>	<u>(\$4,782,976)</u>	<u>\$391,979,407</u>
Capital assets summary					
Capital assets not depreciated	\$53,184,004	\$78,678,749	(\$76,534,638)	(\$854,678)	\$54,473,437
Other capital assets at cost	599,612,921	13,295,149	76,534,638	(17,737,154)	671,705,554
Total cost of capital assets	<u>652,796,925</u>	<u>91,973,898</u>	<u>0</u>	<u>(18,591,832)</u>	<u>726,178,991</u>
Less accumulated depreciation	<u>(265,464,948)</u>	<u>(27,215,377)</u>		<u>12,954,178</u>	<u>(279,726,147)</u>
Capital assets net of depreciation	<u>\$387,331,977</u>	<u>\$64,758,521</u>	<u>\$0</u>	<u>(\$5,637,654)</u>	<u>\$446,452,844</u>

G. ASSETS HELD IN TRUST BY OTHERS

The School and Institutional Trust Lands Administration administer the 1862 Land Grant fund on behalf of the University. Income from the fund, which was \$188,185 and \$238,335 for fiscal years 2006 and 2005 respectively, is pledged in support of University bond issues. Assets of the fund are not recorded on the records of the University. The composition and carrying value of the fund at each respective fiscal year end was reported as follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash		\$136,065
Investments	\$969,783	932,949
Land	<u>110,779</u>	<u>110,779</u>
Total	<u><u>\$1,080,562</u></u>	<u><u>\$1,179,793</u></u>

H. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable consisted of the following at June 30, 2006:

Salaries and benefits payable	\$22,062,122
Suppliers payable	19,021,366
Interest payable	918,051
Other	<u>237,102</u>
Total accounts payable and accrued liabilities	<u><u>\$42,238,641</u></u>



I. BONDS, NOTES, CONTRACTS AND OTHER NON-CURRENT LIABILITIES

Assets pledged for payment of bonds and contracts include the net revenue of auxiliary enterprises, land grant funds, specific student fees and reimbursed facilities and administrative costs. Bonds, notes and contracts outstanding at June 30, 2006 and 2005, were as follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Bonds payable		
Stadium/Spectrum and Student Recreation Bonds		
Series A (2004) 2.00% - 5.00%, 2004-2026, \$11,065,000	\$10,245,000	\$10,655,000
Series B (2004) 2.50% - 3.50%, 2004-2007, \$805,000	275,000	540,000
Total Stadium/Spectrum and Student Recreation Bonds	<u>10,520,000</u>	<u>11,195,000</u>
Student Housing System Revenue Bonds		
Series A (1999) 3.80% - 4.75%, 2002-2014, \$15,010,000	13,450,000	14,640,000
Series 2004 4.50% - 5.00%, 2005-2035, \$40,470,000	40,470,000	40,470,000
Total Student Housing System Revenue Bonds	<u>53,920,000</u>	<u>55,110,000</u>
Research Revenue Bonds		
Series A (1995) 3.60% - 5.75%, 1995-2010, \$3,515,000		595,000
Series A (2002) 2.50% - 5.25%, 2002-2018, \$23,735,000	22,075,000	22,875,000
Series A (2003) 1.90% - 4.40%, 2003-2016, \$705,000	569,000	616,000
Total Research Revenue Bonds	<u>22,644,000</u>	<u>24,086,000</u>
Roosevelt Campus Construction Bonds		
Series (1999) 2.50%, 2001-2020, \$500,000	396,000	418,000
Total bonds payable	<u>87,480,000</u>	<u>90,809,000</u>
Notes payable		
Zions Mortgage, 3%, 1978-2010	385,000	487,500
Tooele Building, 3.91%, 1996-2015	820,000	877,000
SAFECO Credit Company, 5.3690%, 1999-2009	214,024	276,182
UOES, 0%, 2000-2006		41,670
Logan Park, LLC, 7.75%, 1999-2011	516,915	603,600
Zions Bank, variable - 75% of prime, Housing Fire/Life Safety, 2002-2012	2,015,401	1,680,084
Zions Bank, 4.70%, 2003-2013	1,077,616	1,210,186
Caterpillar Financial Services, 3.95%, 2003-2024	13,650,501	14,116,343
Caterpillar Financial Services, 4.65%, 2005-2024	126,865	130,887
Zions Bank, 2.5%, 2004-2009	72,709	106,288
Key Municipal Finance, 4.59%, 2006-2014	948,197	
Total notes payable	<u>19,827,228</u>	<u>19,529,740</u>
Equipment contracts payable, 2006-2011	640,335	1,111,095
Total bonds, notes and equipment contracts payable	<u>107,947,563</u>	<u>111,449,835</u>

continued, page 36...

continued from page 35...

	June 30, 2006	June 30, 2005
Unamortized original issue discount (OID) reoffering premium (RP) and refunding loss on bonds		
1995A Bonds - OID		(\$1,995)
1995A Bonds - refunding loss	(\$174,052)	(212,730)
2002A Bonds - RP	455,806	499,764
2004A/B Bonds - RP	32,327	34,349
2004A/B - refunding loss	(6,642)	(14,644)
2004 Bonds - OID	(198,292)	(205,169)
Total unamortized OID, RP and refunding loss	<u>109,147</u>	<u>99,575</u>
Total bonds, notes and equipment contracts payable net of unamortized OID, RP and refunding loss on bonds	<u>\$108,056,710</u>	<u>\$111,549,410</u>

Below is a summary of the changes in bonds, notes and equipment contracts payable for the fiscal year ended June 30, 2006.

	Bonds	Notes	Equipment Contracts	Total Payable	Unamortized OID, RP and Refunding Loss	Total Net of OID, RP and Refunding Loss
Balance at June 30, 2005	\$90,809,000	\$19,529,740	\$1,111,095	\$111,449,835	\$99,575	\$111,549,410
Additions		1,386,577	294,314	1,680,891	55,553	1,736,444
Deletions	(3,329,000)	(1,089,089)	(765,074)	(5,183,163)	(45,981)	(5,229,144)
Balance at June 30, 2006	<u>\$87,480,000</u>	<u>\$19,827,228</u>	<u>\$640,335</u>	<u>\$107,947,563</u>	<u>\$109,147</u>	<u>\$108,056,710</u>

The University has complied with the restrictive covenants of its bond agreements. Amounts due on bonds and contracts payable in future years are as follows:

	Bonds	Bonds Interest	Notes	Notes Interest	Equipment Contracts	Contracts Interest	Total Amount Required
FY 2007	\$3,025,000	\$4,153,197	\$1,355,365	\$841,052	\$304,794	\$34,165	\$9,713,573
FY 2008	3,178,000	4,036,580	1,430,609	760,589	168,305	18,479	9,592,562
FY 2009	3,319,000	3,907,494	1,464,724	690,927	122,664	7,313	9,512,122
FY 2010	3,462,000	3,765,345	1,459,743	621,020	42,133	1,281	9,351,522
FY 2011	3,629,000	3,612,405	1,422,183	551,041	2,439	42	9,217,110
FY's 2012-2016	20,224,000	15,443,600	5,317,272	2,047,723			43,032,595
FY's 2017-2021	14,668,000	10,944,663	4,282,463	1,039,320			30,934,446
FY's 2022-2026	12,800,000	7,780,171	3,094,869	144,924			23,819,964
FY's 2027-2031	11,625,000	4,688,750					16,313,750
FY's 2032-2036	11,550,000	1,300,823					12,850,823
	<u>\$87,480,000</u>	<u>\$59,633,028</u>	<u>\$19,827,228</u>	<u>\$6,696,596</u>	<u>\$640,335</u>	<u>\$61,280</u>	<u>\$174,338,467</u>

The outstanding balance of bonds defeased and refunded in prior years totaled \$16,495,000 at June 30, 2006. The bond liabilities of the defeased and refunded bonds are not included on the balance sheet.

Liability for compensated absences and early retirement consisted of the following at June 30, 2006:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Liability for compensated absences	\$2,858,174	\$10,228,645	\$13,086,819
Liability for early retirement	2,094,531	3,411,558	5,506,089
Total	<u>\$4,952,705</u>	<u>\$13,640,203</u>	<u>\$18,592,908</u>

Deferred revenues and deposits consisted of the following at June 30, 2006:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Tuition and fees	\$2,885,747		\$2,885,747
Contract and grant revenues	12,600,688	\$1,390,000	13,990,688
Auxiliary and service enterprises	2,126,671		2,126,671
Non-operating	3,438		3,438
Total	<u>\$17,616,544</u>	<u>\$1,390,000</u>	<u>\$19,006,544</u>

Non-current liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance June 30, 2006</u>	<u>Amounts Due Within One Year</u>
Bonds, notes and contracts payable					
Bonds payable	\$90,908,575	\$55,553	(\$3,374,981)	\$87,589,147	\$3,025,000
Notes payable	19,529,740	1,386,577	(1,089,089)	19,827,228	1,355,365
Contracts payable	1,111,095	294,314	(765,074)	640,335	304,794
Total bonds, notes and contracts payable	<u>111,549,410</u>	<u>1,736,444</u>	<u>(5,229,144)</u>	<u>108,056,710</u>	<u>4,685,159</u>
Other liabilities					
Liability for compensated absences	12,010,819	5,090,079	(4,014,079)	13,086,819	2,858,174
Liability for early retirement	5,987,677	2,057,760	(2,539,348)	5,506,089	2,094,531
Deferred revenue and deposits	23,796,255	17,816,544	(22,606,255)	19,006,544	17,616,544
Total other liabilities	<u>41,794,751</u>	<u>24,964,383</u>	<u>(29,159,682)</u>	<u>37,599,452</u>	<u>22,569,249</u>
Total non-current liabilities	<u>\$153,344,161</u>	<u>\$26,700,827</u>	<u>(\$34,388,826)</u>	<u>\$145,656,162</u>	<u>\$27,254,408</u>

J. BONDS - CURRENT YEAR ACTIVITY OF BOND FUND ACCOUNTS

The tables below outline the financial activity and fund balances in the bond funds for each of the University's outstanding bond issues.

Student Fee and Housing System Revenue Bonds Series A (1999) and Series 2004 Original Amounts Series A (1999) \$15,010,000; Series 2004 \$40,470,000

	Bond Revenue Fund	Repair and Replacement Fund	Capitalized Interest Fund 2004	Cost of Issuance Fund	Cost of Issuance Fund 2004	Bond Fund 1999A Bonds	Bond Fund 2004 Bonds
Additions:							
Net revenues from bonded facilities	\$1,685,755						
Student building fees	688,579						
Land grant revenues	188,185						
Investment earnings		\$21,466	\$82,573			\$1,178	\$535
Total additions	2,562,519	21,466	82,573	\$0	\$0	1,178	535
Deductions:							
Interest on indebtedness				16,011	25,188	637,414	2,223,637
Debt principal payments						1,190,000	
Other						2,700	4,000
Transfer to other University funds	710,434						
Total deductions	710,434	0	0	16,011	25,188	1,830,114	2,227,637
Interfund transfers in/(out)	(303,956)	(15,320)	(2,052,588)			315,276	2,056,588
Net increase/(decrease)	1,548,129	6,146	(1,970,015)	(16,011)	(25,188)	(1,513,660)	(170,514)
Net assets - beginning of year	101,079	503,859	3,396,405	152,105	751,366	1,462,898	(342,069)
Net assets - end of year	\$1,649,208	\$510,005	\$1,426,390	\$136,094	\$726,178	(\$50,762)	(\$512,583)

The net revenues related to the Student Fee and Housing System Revenue Bonds - Series A (1999) and Series 2004 were equal to 141.19% of the aggregate debt service in fiscal year 2006.

Student Fee Revenue Bonds Roosevelt Campus Series (1999) - Original Amount \$500,000

	Bond Fund	Cost of Issuance Fund
	<u> </u>	<u> </u>
Additions:		
Tuition and fees	\$32,437	
Total additions	<u>32,437</u>	<u>\$0</u>
Deductions:		
Interest on indebtedness	10,437	1,065
Debt principal payments	22,000	
Total deductions	<u>32,437</u>	<u>1,065</u>
Net increase/(decrease) in net assets	0	(1,065)
Net assets - beginning of year	32,502	17,047
Net assets - end of year	<u><u>\$32,502</u></u>	<u><u>\$15,982</u></u>

Student Building Fee Revenue and Refunding Bonds - Series A and B (2004)
Original Amount 2004A \$11,065,000; 2004B \$805,000

	Bond Revenue Fund 2004	Capitalized Interest Fund 2004	Cost of Issuance Fund 2004	Debt Service Reserve Fund 2004
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Additions:				
Investment earnings		\$9,263		\$1,390
Student building fees	\$818,858			
Total additions	<u>818,858</u>	<u>9,263</u>	<u>\$0</u>	<u>1,390</u>
Deductions:				
Interest on indebtedness			18,137	561,725
Debt principal payments				675,000
Other				3,000
Total deductions	<u>0</u>	<u>0</u>	<u>18,137</u>	<u>1,239,725</u>
Interfund transfers in/(out)	(818,858)	(503,808)		1,322,666
Net increase/(decrease)	0	(494,545)	(18,137)	84,331
Net assets - beginning of year	0	495,114	155,221	333,914
Net assets - end of year	<u><u>\$0</u></u>	<u><u>\$569</u></u>	<u><u>\$137,084</u></u>	<u><u>\$418,245</u></u>

Research Revenue Bonds Series (2003) - Original Amount \$705,000

	Debt Service Reserve	Bond Fund	Cost of Issuance Fund
Additions:			
Investment earnings		\$42	
Facilities and administrative revenues	\$2,987		
Transfers from other University funds		70,062	
Total additions	<u>2,987</u>	<u>70,104</u>	<u>\$0</u>
Deductions:			
Interest on indebtedness		22,748	1,467
Debt principal payments		47,000	
Other		2,000	
Total deductions	<u>0</u>	<u>71,748</u>	<u>1,467</u>
Interfund transfers in/(out)	(1,259)	1,259	
Net increase/(decrease) in net assets	1,728	(385)	(1,467)
Net assets - beginning of year	69,554	(1,359)	15,404
Net assets - end of year	<u><u>\$71,282</u></u>	<u><u>(\$1,744)</u></u>	<u><u>\$13,937</u></u>

Research and Refunding Revenue Bonds - Series A (1995 and 2002)
Original Amount 1995A \$8,555,000; 2002 \$23,735,000

	Bond Fund 1995A	Cost of Issuance Fund 1995A	Debt Service Reserve Fund 2002A	Cost of Issuance Fund 2002A
Additions:				
Utah State University Research Foundation - facilities and administration cost recovery			\$1,630,554	
Investment earnings			4,268	
Facilities and administrative revenues	\$612,476		179,999	
Transfers from other University funds				
Total additions	<u>612,476</u>	<u>\$0</u>	<u>1,814,821</u>	<u>\$0</u>
Deductions:				
Interest on indebtedness	12,768	9,739	1,004,724	20,382
Debt principal payments	595,000		800,000	
Other	975		3,000	
Total deductions	<u>608,743</u>	<u>9,739</u>	<u>1,807,724</u>	<u>20,382</u>
Interfund transfers in/(out)	(967)		967	
Net increase/(decrease)	2,766	(9,739)	8,064	(20,382)
Net assets - beginning of year	(2,766)	9,739	(84,769)	(7,038)
Net assets - end of year	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>(\$76,705)</u></u>	<u><u>(\$27,420)</u></u>

Note: Net assets - beginning balance for Cost of Issuance Fund 2002A has been adjusted to reflect the unamortized portion of reoffering premiums (\$499,576) and loss on refunding \$212,730.

K. PENSION PLANS AND RETIREMENT BENEFITS

As required by state law, eligible non-exempt employees of the University (as defined by the U.S. Fair Labor Standards Act) are covered by the Utah Retirement Systems. Eligible exempt employees (as defined by the U.S. Fair Labor Standards Act) are covered by the Teachers Insurance and Annuity Association (TIAA) and/or College Retirement Equities Fund (CREF). The total employee compensation and the total contribution for each pension plan for the year ending June 30, 2006 and the two previous years were as follows:

	Year	Compensation	Contributions		
			Defined Benefit Plans	Defined Contribution Plans 401(K)	Total
Utah Retirement Systems					
State and School System - Contributory	2006	\$955,147	\$142,674		\$142,674
	2005	981,863	146,199		146,199
	2004	1,159,533	153,151		153,151
State and School System - Non-contributory (includes amounts (see note below) contributed to a 401(K) plan with Educators Mutual Insurance Assoc. (EMIA)	2006	33,303,804	4,457,948	\$527,864	4,985,812
	2005	33,152,009	4,435,741	523,575	4,959,316
	2004	31,604,247	3,697,449	474,239	4,171,688
Public Safety with Social Security System - Non-contributory	2006	363,660	85,315		85,315
	2005	360,930	84,674		84,674
	2004	444,233	93,955		93,955
TIAA and/or CREF	2006	122,108,917		17,339,467	17,339,467
	2005	118,202,358		16,784,735	16,784,735
	2004	112,689,436		16,001,900	16,001,900
Non-eligible employees	2006	37,631,756			
	2005	38,130,671			
	2004	36,079,628			

Utah Retirement Systems plans include multiple-employer, cost sharing, defined benefit plans and 401(K) defined contribution plans. The defined benefit plans provide defined benefits based on years of service and highest average salaries. The defined contribution plans provide benefits based on total contributions and the accumulated earnings. The plans are administered by the State of Utah. These systems cover substantially all eligible public employees of the State of Utah, educational employees and employees of participating local governmental entities. The pension benefit is vested at the end of four years under all Utah Retirement Systems plans in which University employees are participating. The amount credited as the individual's contribution is vested at the time the contribution is made. For employees in the contributory plan, the University contributes at a rate of 14.89% of gross earnings. Of this, 6% is credited as the individual's contribution and 8.89% is considered the University's matching contribution. For employees in the State and School System – Non-contributory plan, the University contributes 13.38% of gross earnings. Of this, 1.5% is contributed to a 401(K) plan and 11.88% is credited as the University's contribution. For the employees in the Utah Public Safety with Social Security System – Non-contributory plan, the University contributes 23.46% of gross earnings. During the fiscal years ended June 30, 2006, 2005 and 2004, the University's contribution to all Utah retirement plans was \$5,187,506, \$5,160,662 and \$4,393,314, respectively. The University has no further liability once contributions are made.

The Utah Retirement Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board, whose members are appointed by the Governor. The Utah Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for the State and School System - Contributory Retirement plan, State and School System - Non-contributory Retirement plan and Public Safety Retirement System plan. A copy of the report may be obtained by writing to the Utah

Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102, or by calling 1-800-365-8772.

The EMIA provides a 401(K) defined contribution plan that can be utilized by employees on the Utah Retirement State and School System – Non-contributory plan. This contribution is in lieu of the 1.5% that would have been contributed to the Utah Retirement Systems 401(K) plan. The contribution made by the University is at 1.5% of gross earnings. Contributions by the University become vested at the time the contribution is made. During the fiscal years ended June 30, 2006, 2005 and 2004, the University's contribution to this 401(K) plan was \$26,295, \$29,527 and \$25,480, respectively. The University has no further liability once contributions are made.

The TIAA and/or CREF provide individual retirement fund contracts with each participating employee. Benefits provided to retired employees are based on the value of individual contracts and the estimated life expectancy of the employee at retirement. Contributions by the University to the employee's contract become vested at the time the contribution is made. For the years ended June 30, 2006, 2005 and 2004, the University's contribution to this multiple employer defined contribution plan was 14.2% of the employees' annual salary or \$17,339,467, \$16,784,735 and \$16,001,900, respectively. The University has no further liability once annual contributions are made.

Under an early retirement option effective October 17, 1997, the University may elect to offer early retirement to employees whose accumulated age and years of service at Utah State University is equal to or greater than 75 and who have attained the age of 56. As of June 30, 2006, there were 77 individuals participating in this program. Effective July 1, 2004, the University modified its early retirement offering. To qualify under the July 1, 2004 option, an employee's accumulated age and years of service at Utah State University must be equal to or greater than 75. The early retiree can now choose the length of time to receive payments, either six years (16.67% of base salary per year) or five years (20% of base salary per year). The election to take early retirement is now up to the employee rather than the University.

The six year option requires a minimum age of 56 and the five year option requires a minimum age of 57. As of June 30, 2006 there were 73 individuals participating in this new program. The University records an expenditure and a liability equal to the present value of the projected benefit obligation in the year the individual retires. The program is funded on a pay-as-you-go basis. Payments for the incentive pay in the years ended June 30, 2006, 2005 and 2004 were \$1,423,175, \$1,493,879 and \$1,409,673, respectively. Payments for the health care and life insurance benefits for the years ended June 30, 2006, 2005 and 2004 were \$1,025,980, \$1,006,361 and \$1,027,505, respectively.

L. DEFERRED COMPENSATION PLAN

Employees of the University may participate in several deferred compensation plans adopted under the provisions of Internal Revenue Code (IRC) Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). The deferred compensation plans are available to all employees of the University. Under the plans, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

The deferred compensation plans are administered by an unrelated financial institution. As part of its fiduciary role, the University has an obligation of due care in selecting the third party administrators. In the opinion of the University administrators, the University has acted in a prudent manner and is not liable for losses that may arise from the administration of the plans.

The University is in compliance with the requirements of subsection (g) of IRC Section 457. All assets for IRC Section 457 Plans are externally held in trust for the exclusive benefit of the participants or their beneficiaries rather than as assets of the University.

M. PLEDGES

At June 30, 2006, the University had received and recorded certain pledges of gifts as follows:

Current	Long-Term	Total
\$2,437,937	\$2,862,481	\$5,300,418

Restrictions on the pledges are: \$303,281 for expendable scholarships, \$1,160,000 for expendable programs, \$2,688,000 for capital improvements, \$319,137 for endowed scholarships, \$300,000 for endowed professorships and \$530,000 for program endowments.

N. RISK MANAGEMENT

General Liability Insurance

The University maintains insurance coverage for general, automobile, personal injury, errors and omissions, employee dishonesty and malpractice liability up to \$10 million per occurrence through policies administered by the Utah State Risk Management Fund. The University also insures its buildings, including those under construction, and contents against all insurable risks of direct physical loss or damage with the Utah State Risk Management Fund. This all-risk insurance coverage provides for repair or replacement of damaged property, at a replacement cost basis subject to a deductible of \$1,000 per occurrence. All revenues from University operations, rental income for its residence halls and tuition are insured against loss due to business interruption caused by fire or other insurable perils with the Utah State Risk Management Fund. All University employees are covered by worker's compensation insurance, including employer's liability coverage, by the Worker's Compensation Fund of Utah.

Self-insurance for Employee Health and Dental Care

On July 1, 1995, the University established a self-insurance fund for employee health and dental

care. The University's estimated self-insurance claims liability at June 30, 2006, and June 30, 2005, is as follows:

	2006	2005
Estimated claims liability at beginning of year	\$2,490,613	\$2,040,180
Current year claims and changes in estimates	31,515,522	28,035,520
Claim payments, including related legal and administrative expenses	<u>(31,268,090)</u>	<u>(27,585,087)</u>
Estimated claims liability at end of year	<u>\$2,738,045</u>	<u>\$2,490,613</u>

The University has recorded the investment of the health and dental care funds at June 30, 2006, and the estimated liability for self-insurance claims at that date in the Statement of Net Assets. The income on fund investments, the expenses related to the administration of the self-insurance and the estimated provision for the claims liabilities, for the

year then ended, are recorded in the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Net Assets.

Contingencies

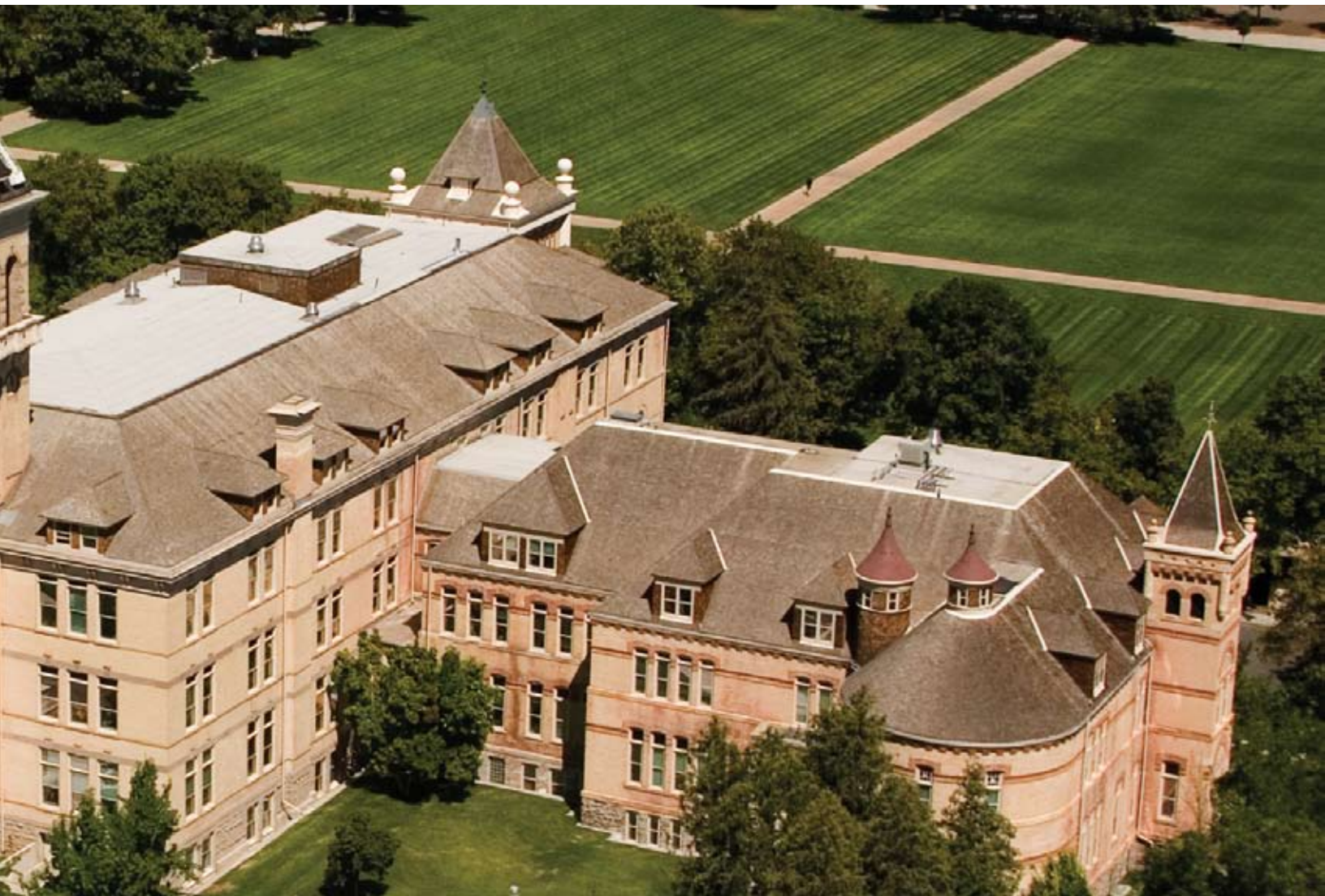
The University has been named in several lawsuits where litigation is pending. It is unlikely that any judgments against the University will be established or would otherwise be material in nature. The lawsuits are such that any financial settlement would be covered primarily by insurance held by the University.



O. NATURAL AND FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for FY 2006 were as follows:

Functional Classification	Natural Classification					Total
	Salaries and Wages	Employee Benefits	Other Operating Expenses	Scholarships and Fellowships	Depreciation	
Instruction	\$68,926,866	\$25,497,765	\$20,681,254			\$115,105,885
Research	42,020,014	15,330,340	43,992,552			101,342,906
Public service	18,449,684	6,953,770	13,350,983			38,754,437
Academic support	11,889,533	4,789,038	8,191,259			24,869,830
Student services	6,621,167	2,007,543	3,967,795			12,596,505
Institutional support	20,565,980	9,716,657	2,945,460			33,228,097
Operation & maintenance	8,533,562	3,753,440	17,794,503			30,081,505
Scholarships & fellowships				\$17,876,138		17,876,138
Service departments	3,796,618	1,226,004	(6,987,011)			(1,964,389)
Auxiliary enterprises	10,170,441	3,532,766	15,656,831			29,360,038
Depreciation					\$27,215,377	27,215,377
Total operating expenses	<u>\$190,973,865</u>	<u>\$72,807,323</u>	<u>\$119,593,626</u>	<u>\$17,876,138</u>	<u>\$27,215,377</u>	<u>\$428,466,329</u>





This report is prepared by the Office of the Vice President for Business and Finance.
Financial statement compilation and preparation; statistical and financial highlights:
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