# 2018 ANNUAL FINANCIAL REPORT

Utah State University

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UtahStateUniversity

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# FROM THE PRESIDENT

The start of a new school year is always a special time at Utah State University where the entire community is ready to learn, bond, and grow. And now, as I begin my second year as USU's president, I know that Utah State University continues to be a leading land-grant institution known for our quality discovery, learning, and outreach opportunities. Our outstanding scholars and educators, along with our university community, collectively embody a tradition of greatness.

We are pleased to report that Utah State University is in sound financial shape with enrollments that reflect proactive strategic decisions to increase student retention and to help students graduate earlier — and less expensively. These strategic decisions have resulted in better efficiencies for students and, even more important, decreased overall costs of graduation. We are also keeping our promise of providing high quality research, teaching, and service to the great State of Utah and its citizens.

It is a great time to be an Aggie. In national rankings, we continue to gain ground. Utah State University was ranked as the #5 public university in the nation in "National Universities Rankings 2017" by *Washington Monthly* and is the #2 highest-ranked public university in the nation with lowest tuition in "America's Best Value Colleges" by *Forbes*. Our award-winning faculty continue to receive accolades. In March, physics professor David Peak was named as a 2018 recipient of the National Council on Undergraduate Research-Goldwater Scholars Faculty Mentor Award. Our facilities continue to astound thanks, in part, to our many Utah State University alumni and friends who are so generous in their support of the institution. In May, we celebrated the opening of the Sorenson Legacy Foundation Center for Clinical Excellence on the north side of campus.

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 Office of the State Auditor has audited the financial statements for the year ending June 30, 2018. Their definitive opinion is included with this report. The annual financial report is intended to establish the University's financial position as of June 30, 2018. It is also intended to reflect the flow of financial resources to the University during the fiscal year 2017-2018, while disclosing how these resources are applied in accomplishing our mission.

We are pleased to share this report with you.

Noelle E. Cockett

NOELLE E. COCKETT
*President*
*Utah State University*

**OFFICE OF THE**
**STATE AUDITOR**

**INDEPENDENT STATE AUDITOR'S REPORT**

To the Board of Trustees, Audit Committee
and
Noelle E. Cockett, President
Utah State University

**Report on the Financial Statements**

We have audited the accompanying financial statements of Utah State University (University), a component unit of the State of Utah, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Utah State University Research Foundation, a blended component unit foundation, which represents 7.3 percent, 2.4 percent, and 15.3 percent, respectively, of total assets, net position, and total revenues of the University. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the 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 from material misstatement.

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

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

***Opinion***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2018, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

*Other Information*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Office of the State Auditor

Office of the State Auditor
October 24, 2018

# MANAGEMENT'S DISCUSSION & ANALYSIS

This section provides an overview of the University's financial activities in the current year compared to the prior year. Total assets and liabilities are presented as well as the change in net position from the prior year. Revenues, expenses, appropriations from the state, contributions, etc., are analyzed and discussed. The cash activity is also summarized to show the change in cash from the prior year to the current year.

## 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 (FY) ended June 30, 2018. The analysis includes the University's condensed and comparative Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; 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 Cooperative Extension Service, Utah State University Uintah Basin Regional Campus, Utah State University Southeast Region, Utah State University Tooele Regional Campus, Utah State University Brigham City Regional Campus, and Utah State University Eastern (USU Eastern), which are separately funded by state appropriations.

The Utah State University Research Foundation (USU Research Foundation), Utah State University Foundation (Foundation), and the College of Eastern Utah Foundation are blended component units of the University and have been consolidated in these financial statements. USU Research Foundation is governed by a Board of Trustees appointed by the president of Utah State University, under the direction of the University's Board of Trustees. USU 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. The Utah State University Foundation is also governed by a Board of Trustees appointed by the president of the University. The Utah State University Foundation is a dependent foundation of Utah State University and serves as the main fund-raising arm of the University. The College of Eastern Utah Foundation is governed by a Board of Trustees appointed by a nominating committee of current members of the Board of Trustees. Its primary role is to support the mission of USU Eastern.

The USU Research Foundation annually publishes audited financial statements. A copy of the audited financial statements can be obtained from USU Research Foundation, 1695 North Research Parkway, North Logan, Utah 84341. The College of Eastern Utah Foundation unaudited financial statements, compiled by an independent accounting firm, are available in the USU Eastern Development Office, 451 East 400 North, Price, Utah 84501.

## OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The Management's Discussion and Analysis is designed to provide an easily readable analysis of the University's financial activities based on facts, decisions, and conditions known at the date of the auditor's report. The University's financial statements for fiscal year 2018 are presented beginning on page 18. The financial statements, note disclosures, 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 operation, cash flows, and the main condition of the University as a whole. There are three financial statements presented: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows.

## STATEMENT OF NET POSITION

The Statement of Net Position outlines the University's financial condition at fiscal year end. This statement reflects the various assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the fiscal year ended June 30, 2018.

From the data presented, readers of the Statement of Net Position have the information to determine the assets available to continue the operations of the University. They can also determine how much the University owes vendors, investors, and lending institutions. Finally, the Statement of Net Position outlines the net position (assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources) available to the University and defines that availability.

Net position is divided into three major categories. The first category, Net Investment in Capital Assets, reflects the University's equity in property, plant, and equipment owned by the University. The second category, Restricted, is further divided into two subcategories: Nonexpendable and Expendable. The corpus of restricted nonexpendable 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 restricted nonexpendable 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. Restricted expendable resources are available for expenditure by the University but must be expended 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, discloses the resources available to the University to be used for any lawful purpose of the University.

## Condensed Statement of Net Position

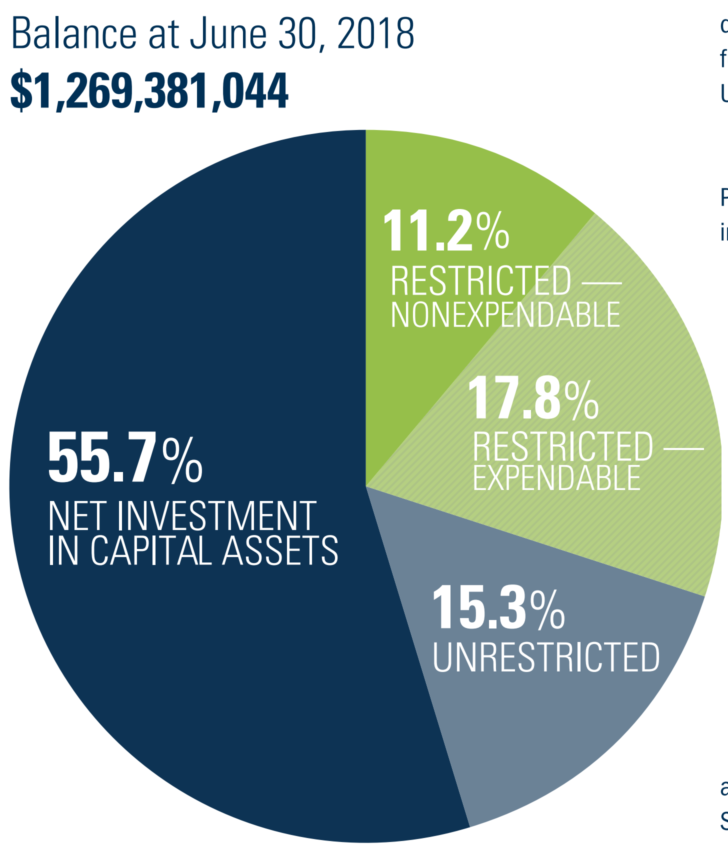
As of June 30

| | 2018 | 2017 | Change | % Change |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets | $169,569,093 | $185,726,089 | ($16,156,996) | (8.70)% |
| Noncurrent assets | | | | |
| Net capital assets | 911,459,445 | 857,392,014 | 54,067,431 | 6.31 % |
| Other noncurrent assets | 600,897,054 | 564,108,474 | 36,788,580 | 6.52 % |
| **Total assets** | 1,681,925,592 | 1,607,226,577 | 74,699,015 | 4.65 % |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Unamortized losses on bonds | 7,481,148 | 3,011,896 | 4,469,252 | 148.39 % |
| Resources related to pensions | 20,677,761 | 20,519,667 | 158,094 | 0.77 % |
| **Total deferred outflows of resources** | 28,158,909 | 23,531,563 | 4,627,346 | 19.66 % |
| **LIABILITIES** | | | | |
| Current liabilities | 122,136,970 | 114,933,076 | 7,203,894 | 6.27 % |
| Noncurrent liabilities | 296,092,146 | 275,850,908 | 20,241,238 | 7.34 % |
| **Total liabilities** | 418,229,116 | 390,783,984 | 27,445,132 | 7.02 % |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Split-interest agreements | 1,928,082 | 2,178,082 | (250,000) | (11.48)% |
| Deferred gift revenue | 1,006,987 | 1,703,325 | (696,338) | (40.88)% |
| Resources related to pensions | 19,539,272 | 6,653,065 | 12,886,207 | 193.69 % |
| **Total deferred inflows of resources** | 22,474,341 | 10,534,472 | 11,939,869 | 113.34 % |
| **NET POSITION** | | | | |
| Net investment in capital assets | 707,397,179 | 670,334,903 | 37,062,276 | 5.53 % |
| Restricted — nonexpendable | 141,644,718 | 136,970,804 | 4,673,914 | 3.41 % |
| Restricted — expendable | 225,915,233 | 232,443,839 | (6,528,606) | (2.81)% |
| Unrestricted | 194,423,914 | 189,690,138 | 4,733,776 | 2.50 % |
| **Total net position** | $1,269,381,044 | $1,229,439,684 | $39,941,360 | 3.25 % |

In fiscal year 2018, the University's total net position increased $39.9 million (3.3%) to $1.27 billion. The increase reflects those revenues that were received during fiscal year 2018 but were not used for operations or payment of interest on capital asset related debt.

Total assets increased $74.7 million (4.7%) while total liabilities increased $27.4 million (7%). Current assets decreased by $16.2 million (8.7%). Cash and cash equivalents decreased $1.1 million largely due to the purchase of investments. Short-term investments decreased $19.9 million largely due to purchases of long-term investments. Accounts receivable increased $3.8 million due to a $6.4 million increase for contracts and grants, a net decrease of $2.8 million from other state agencies, and a net decrease of $0.2 million from others. Prepaid expenses increased $1.2 million as various new service contracts and licenses were purchased. Noncurrent assets increased $90.9 million due to a net increase of $54.1 million in capital assets, an increase of $39.3 million in investments, an $8.9 million increase in restricted cash and cash equivalents, and a $10.2 million decrease in accounts receivable. The net increase in capital assets is largely due to several large construction projects completed or in progress, including the Sorenson Center for Clinical Excellence, the Space Dynamics Laboratory Building, the Fine Arts Complex addition and renovation, the Central Suites Residence Hall, and the Life Sciences Building. The University capitalized $21.9 million, $6.8 million, $3.2 million, $9.2 million, and $4.7 million, respectively, for these projects during fiscal year 2018. Also, the purchase and renovation of the Salt Lake Campus Building added $6.5 million to the net increase in capital assets. The increase in restricted cash and cash equivalents is due to the net increase of bond construction proceeds from the issuance of bonds for the next Space Dynamics Laboratory Building, offset by the spending of prior year bond construction proceeds as they were spent throughout the year for the Space Dynamics Laboratory Building and the Central Suites Residence Hall. Current liabilities increased $7.2 million (6.3%), while noncurrent liabilities increased $20.2 million (7.3%). The majority of the increase is due to the issuance of the $6.2 million Series 2018A Research Revenue Bonds, the issuance of the $32.2 million Series 2018B Research Revenue Bonds, and the decrease of $13.9 million of net pension liability.

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




## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Changes in total net position as presented in the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, 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. Nonoperating revenues are revenues received for which goods and services are not provided; for example, state appropriations are nonoperating revenues because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services in return for those revenues. Without the nonoperating revenues, in particular the state appropriations, private gifts, and financial aid grants, 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. In fiscal year 2018, funding from these sources was adequate to cover all of the University's costs of operations.

The Statement of Revenues, Expenses, and Changes in Net Position shows the activity that resulted in a $39.9 million increase in net position for the fiscal year ended June 30, 2018.

The University experienced a net operating loss in fiscal year 2018 of $272.7 million. This operating loss highlights the University's dependency on nonoperating revenues such as state appropriations and private gifts to meet its costs of operations.

Total fiscal year 2018 operating revenues increased by $25.1 million (5.8%) over 2017. Tuition and fee revenues increased $3 million (2.1%) which reflects increases in tuition rates. Contracts, grants, and federal appropriations have continued to increase, providing $22.2 million of the increase in operating revenues, reflecting the University's expanding research efforts.

Nonoperating revenues increased $1.1 million (0.4%). State appropriations increased $5.8 million as a result of expanding State revenues. State grants increased $2.1 million largely due to performance-based funding and engineering initiative increases. Private gifts increased $4.3 million primarily due to gifts to the Huntsman School of Business. Financial aid grants increased $6.2 million as more students qualified for assistance. Investment income decreased $8.3 million due to the significant decrease in the average rate of return on investments. Also, a significant portion of the decrease in investment income was due to decreases in unrealized gains on investments. Other nonoperating expense increased $10 million due to the write-off of uncollectable gifts.

Capital appropriations, capital grants, and capital gifts are helping to fund various capital projects that are discussed in the Capital Asset and Debt Administration section on page 13. Capital appropriations, through the Division of Facilities and Construction Management, were $21 million, consisting of $3 million for the USU Eastern Geary Theatre Building upgrades, $9.8 million for the Sorenson Center for Clinical Excellence, and $8.2 million for various buildings and infrastructure upgrades and improvements. Capital grants and gifts decreased significantly from 2017 due to a decrease in pledges.

Total operating expenses increased $41.9 million (6%) in fiscal year 2018. Salaries and benefits went up $30.4 million (7.1%) due to salary increases, and the increased cost of medical insurance. Other operating expenses increased $10.2

million (5.7%) largely due to maintenance of new facilities, the maintenance and repair of older facilities, and general cost increases of supplies and services.

## Condensed Statement of Revenues, Expenses, and Changes in Net Position

For The Years Ended June 30

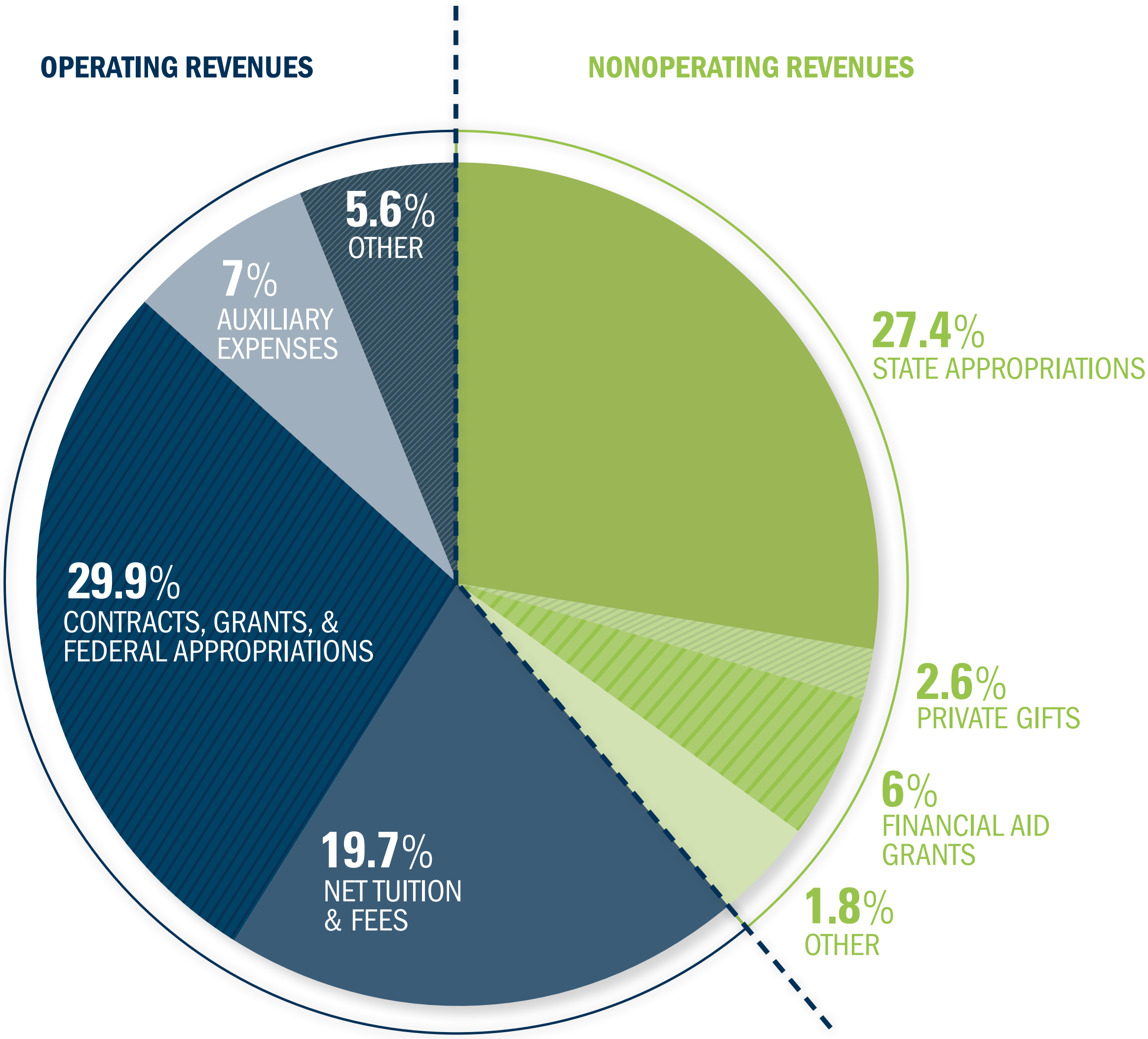
| | 2018 | 2017 | Change | % Change |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Tuition and fees (net of scholarship allowances of: FY 2018 — $85,743,959; FY 2017 — $79,445,766) | $145,663,113 | $142,666,323 | $2,996,790 | 2.10 % |
| Contracts, grants, and federal appropriations | 221,801,908 | 199,614,858 | 22,187,050 | 11.11 % |
| Auxiliary enterprises (net of scholarship allowances of: FY 2018 — $738,179; FY 2017 — $895,995) | 51,957,537 | 50,171,033 | 1,786,504 | 3.56 % |
| Other operating revenues | 41,615,940 | 43,477,847 | (1,861,907) | (4.28)% |
| Total operating revenues | 461,038,498 | 435,930,061 | 25,108,437 | 5.76 % |
| **OPERATING EXPENSES** | | | | |
| Salaries and wages | 327,128,027 | 308,442,700 | 18,685,327 | 6.06 % |
| Employee benefits | 133,671,073 | 121,943,193 | 11,727,880 | 9.62 % |
| Other operating expenses | 190,616,131 | 180,427,652 | 10,188,479 | 5.65 % |
| Scholarships and fellowships | 33,417,025 | 35,416,632 | (1,999,607) | (5.65)% |
| Depreciation | 48,888,124 | 45,590,704 | 3,297,420 | 7.23 % |
| Total operating expenses | 733,720,380 | 691,820,881 | 41,899,499 | 6.06 % |
| Operating loss | (272,681,882) | (255,890,820) | (16,791,062) | (6.56)% |
| **NONOPERATING REVENUES** | | | | |
| State appropriations | 203,257,655 | 197,437,533 | 5,820,122 | 2.95 % |
| Private gifts | 19,165,660 | 14,845,508 | 4,320,152 | 29.10 % |
| Financial aid grants | 44,328,330 | 38,175,758 | 6,152,572 | 16.12 % |
| Other | 13,232,788 | 28,451,428 | (15,218,640) | (53.49)% |
| Net nonoperating revenues | 279,984,433 | 278,910,227 | 1,074,206 | 0.39 % |
| Income before other revenues | 7,302,551 | 23,019,407 | (15,716,856) | (68.28)% |
| **OTHER REVENUES** | | | | |
| Capital appropriations | 21,028,230 | 14,608,885 | 6,419,345 | 43.94 % |
| Capital grants and gifts | 7,168,369 | 14,331,728 | (7,163,359) | (49.98)% |
| Additions to permanent endowments | 4,442,210 | 7,670,447 | (3,228,237) | (42.09)% |
| Total other revenues | 32,638,809 | 36,611,060 | (3,972,251) | (10.85)% |
| Increase in net position | 39,941,360 | 59,630,467 | (19,689,107) | (33.02)% |
| **NET POSITION — BEGINNING OF YEAR** | 1,229,439,684 | 1,169,809,217 | 59,630,467 | 5.10 % |
| **NET POSITION — END OF YEAR** | $1,269,381,044 | $1,229,439,684 | $39,941,360 | 3.25 % |

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

## REVENUES AVAILABLE FOR OPERATING EXPENSES
For Fiscal Year 2018

OPERATING REVENUES – **$461,038,498**
NONOPERATING REVENUES – **$279,984,433**

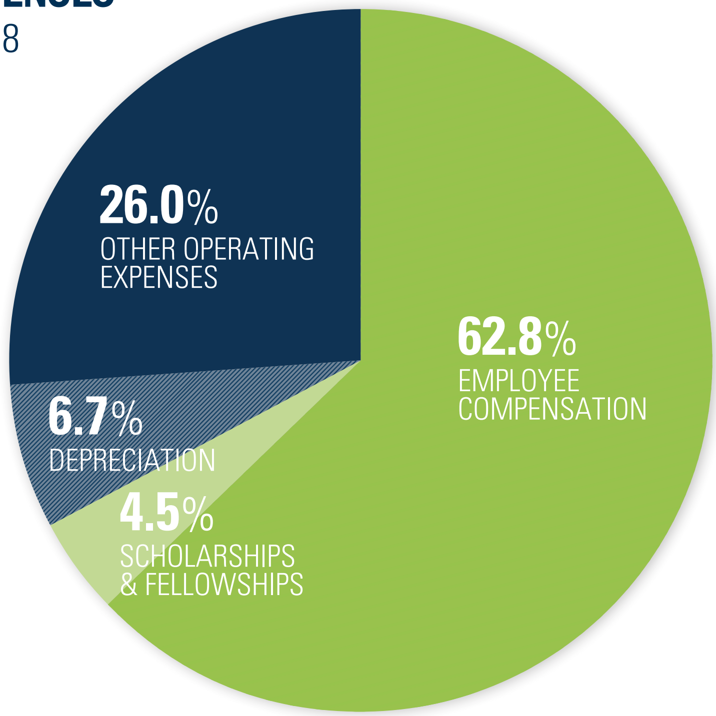
TOTAL – **$741,022,931**



The following graph reflects the University's operating expenses by classification:

## OPERATING EXPENSES
For Fiscal Year 2018

**$733,720,380**




## 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 noncapital financing activities. This section includes the cash received and spent for nonoperating, noninvesting, and noncapital 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, which reconciles the net cash used for operations to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position. This reconciliation is available for review in the Statement of Cash Flows on page 22.

**Condensed Statement of Cash Flows**
For The Years Ended June 30

| | 2018 | 2017 | Change | % Change |
|---|---|---|---|---|
| CASH PROVIDED (USED) BY: | | | | |
| (1) Operating activities | ($221,518,205) | ($216,847,615) | ($4,670,590) | (2.15)% |
| (2) Noncapital financing activities | 280,710,451 | 261,701,746 | 19,008,705 | 7.26 % |
| (3) Capital and related financing activities | (55,559,303) | (49,550,280) | (6,009,023) | (12.13)% |
| (4) Investing activities | 4,182,828 | (50,062,377) | 54,245,205 | 108.36 % |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 7,815,771 | (54,758,526) | 62,574,297 | 114.27 % |
| CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR | 74,275,845 | 129,034,371 | (54,758,526) | (42.44)% |
| CASH AND CASH EQUIVALENTS – END OF YEAR | $82,091,616 | $74,275,845 | $7,815,771 | 10.52 % |

The University's cash and cash equivalents increased by $7,815,771 to a total of $82,091,616. This increase is largely the result of the net increase of balances of bond construction proceeds.

## CAPITAL ASSET AND DEBT ADMINISTRATION

Construction of the Central Suites Residence Hall was substantially completed in August 2018. The project includes the demolition and replacement of an aging high rise residence hall on central campus. The new residence hall will provide 378 beds and 124,400 square-feet for students living on campus and is sited on the central campus for maximum convenience. The project was funded with the proceeds of the University's $24,455,000 Student Fee and Housing System Revenue Bonds, Series 2015, which were issued in September of 2015.

Construction of a 76,191 square-foot, three-story building for the Space Dynamics Laboratory (SDL) located at the USU Innovation Campus was completed in December 2017. The SDL facility houses a portion of the C4ISR Systems Division (which division develops advanced intelligence, surveillance, and reconnaissance ("ISR") technologies to support a wide variety of command, control, communications, and computer ("C4") system needs). Proceeds from the University's $19,500,000 Federally Taxable Research Revenue Bonds, Series 2015, were used to start the construction of the building. Proceeds from the University's $10,135,000 Federally Taxable Research Revenue Bonds, Series 2016, were used to complete the building. The bonds were issued in October of 2015, and July of 2016, respectively.

In June of 2018, the University's $32,210,000 Research Revenue Bonds, Series 2018B, were issued for financing the costs of construction and equipping of an additional building for the Space Dynamics Laboratory within the University's Innovation Campus, paying capitalized interest, funding a debt service reserve account, and paying the costs associated with the issuance of the bonds. The building will provide an additional 78,893 square-feet of office and laboratory space to meet the growing demand for Space Dynamics Laboratory research projects.

In December of 2017, the University completed the construction and equipping of the 21,430 square-foot South Farm Dairy Barn. This $2,300,000 facility features some of the newest technology in equipment for milking and caring of dairy cows.

In February of 2018, the University purchased a property in Salt Lake County to relocate the USU Salt Lake Campus. The property has a large building and approximately 3.75 acres of associated land. In addition to the purchase, the building underwent major renovations. The costs of the purchase and renovation were funded with $2,900,000 of University funds, and the proceeds of the University's $6,231,000 Research Revenue Bonds, Series 2018A, that were issued in February of 2018.

On May 3, 2018, there was a ribbon cutting ceremony for the new building that is the Sorenson Center for Clinical Excellence within the Emma Eccles Jones College of Education and Human Services. The project consists of a 117,503 square-foot facility where integration of research, academic, and clinical services enables training for students, interdisciplinary research among faculty and clinicians, and comprehensive clinical services for clients statewide and regionally. Among specialized classrooms and other features, the Center houses an advanced nursing simulation lab, a hydrotherapy pool, a speech-language clinic, a movement research clinic, a hearing and balance clinic, behavioral health services, a teaching kitchen, and a cafe.

All of the Fine Arts Complex addition and renovation projects were completed. The Tippetts Galleries renovation, and the Art and Mary Heers Scene Shop addition were completed in September of 2017. On October 18, 2017, there was a grand opening celebration and concert for the Newel and Jean Daines Concert Hall. This was the 50th anniversary of the opening of the Kent Concert Hall (renamed the Daines Concert Hall). Other portions of the renovation project, such as the Fine Arts Center Courtyard and the Music Department area, were also completed during the year. The expansion and renovation of the Nora Eccles Harrison Museum of Art was completed in September of 2018. It features a prominent new entrance and lobby on the northwest corner of the Fine Arts Center. All of the projects were funded with private donations and state appropriations.

Construction of the Life Sciences Building is continuing, and it is anticipated that it will be completed in Spring 2019. The building is located on the former site of the Peterson Agricultural Building south of the Biology-Natural Resources Building and north of the Eccles Conference Center. The 96,820 square-foot, multi-level facility will house the Department of Biology, along with 13 teaching laboratories, a lecture hall, research laboratories, and student study spaces. The project is being funded with $38 million in state appropriations, $2 million from the University, and $5 million from private donors.

In December of 2017, the University's $38,825,000 Student Building Fee Revenue Refunding Bonds, Series 2017, were issued for the purpose of refunding a portion of the University's Student Building Fee Revenue Bonds, Series 2013B. The proceeds of the Series 2013B Bonds provided financing for a portion of the cost of constructing the Aggie Recreation Center and the Wayne Estes Center.

## ECONOMIC OUTLOOK

The Utah economy continues to be strong. As recently measured, Utah ranked first in the nation in private sector growth with the total number of jobs increasing by approximately 43,500 to 1.47 million. Although the rate of growth has been trending down in Utah since 2015; falling from 3.7 percent in 2015 to 3.0 percent in 2017, the growth rate is still exceptional. Utah also ranks in the top tier of states in personal income growth. This relatively high growth rate in personal income reflects the state's strong job growth and rising wage rates.

The 2018 forecast for the Utah economy shows a modest slowdown in employment growth in 2018. For the first time in four years, employment growth is expected to dip below three percent with an estimate of 2.8 percent, or 41,000 additional jobs. Despite a slight decline in job growth in 2018, Utah will continue to be in the top five among all states in job growth. Utah's economic strength has made and will continue to make additional funding available from Legislative appropriations to support the University going forward.

Utah's public colleges and universities continue to see enrollment increases in contrast to many areas of the nation. The ten-year enrollment projections for the Utah System of Higher Education are expected to outpace the country with an anticipated 55,000 additional students coming to Utah campuses over the next ten years and Utah State University campuses will benefit from a significant portion of the projected enrollment increase. Currently, headcount on the main Logan campus continues to hover at just under 20,000 students with overall USU enrollment near 28,000. In addition, USU Logan online and broadcast headcount grew at an impressive 8.1% from Fall semester 2017 to Fall semester 2018.

The University has 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. This diversity of revenues continues to provide financial stability and significant protection against potentially difficult future economic times.

Management believes that USU's financial position will continue to enable the University to move forward and accomplish its mission of being one of the nation's premier student-centered, land-grant, and space-grant universities.


Sorenson Legacy Foundation
Center For Clinical Excellence

# FINANCIAL STATEMENTS

The financial statements consist of the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Each statement presents a different financial perspective of the University for the fiscal year ended June 30, 2018.


Frederick P.
CHAMP
DRIVE
Named in the Spring of 1995
in recognition of his
leadership and service as
a Member and President
of the Board of Trustees 1925-1941
during a period of extraordinary
and historic development at
Utah State University

| Statement of Net Position<br>June 30, 2018 | |
|---|---|
| **ASSETS** | |
| Current assets | |
| Cash and cash equivalents (Notes A, B, and D) | $41,382,130 |
| Short-term investments (Notes B and D) | 56,002,183 |
| Accounts receivable from primary government (Note E) | 6,262,470 |
| Accounts receivable from others - net (Note E) | 53,914,958 |
| Credits receivable (Note E) | 182,488 |
| Notes receivable - net (Note E) | 2,471,057 |
| Inventories (Note A) | 3,697,951 |
| Prepaid expenses | 5,655,856 |
| Total current assets | 169,569,093 |
| Noncurrent assets | |
| Restricted | |
| Cash and cash equivalents (Notes A, B, and D) | 40,709,486 |
| Short-term investments (Notes B and D) | 1,397,678 |
| Investments (Notes C and D) | 190,567,485 |
| Accounts receivable - net (Note E) | 11,593,675 |
| Notes receivable - net (Note E) | 52,220 |
| Real estate held for resale | 385,031 |
| Split-interest agreements | 1,928,082 |
| Accounts receivable - net (Note E) | 15,761,706 |
| Notes receivable - net (Note E) | 9,364,315 |
| Investments (Notes C and D) | 329,033,666 |
| Other noncurrent assets | 103,340 |
| Net pension assets (Note K) | 370 |
| Property, plant, and equipment - net (Note F) | 911,459,445 |
| Total noncurrent assets | 1,512,356,499 |
| Total assets | 1,681,925,592 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Unamortized refunding losses on bonds | 7,481,148 |
| Resources related to pensions (Note K) | 20,677,761 |
| Total deferred outflows of resources | 28,158,909 |

*Table continued on next page*

## Statement of Net Position (continued)
June 30, 2018

| | |
|---|---|
| **LIABILITIES** | |
| Current liabilities | |
| Accounts payable and accrued liabilities to primary government (Note G) | 6,796,754 |
| Accounts payable and accrued liabilities to others (Note G) | 60,577,442 |
| Liability for compensated absences (Note H) | 13,914,114 |
| Liability for early retirement (Note H) | 5,845,181 |
| Unearned revenue and deposits | 25,282,113 |
| Other current liabilities (Note H) | 483,255 |
| Funds held for others | 108,830 |
| Notes payable to primary government (Note H) | 49,472 |
| Bonds, notes, and contracts payable (Notes H and I) | 9,079,809 |
| Total current liabilities | 122,136,970 |
| Noncurrent liabilities | |
| Liability for compensated absences (Note H) | 5,801,928 |
| Liability for early retirement (Note H) | 10,065,438 |
| Unearned revenue and deposits | 698,072 |
| Notes payable to primary government (Note H) | 197,581 |
| Other noncurrent liabilities (Note H) | 1,367,011 |
| Net pension liability (Note K) | 35,354,433 |
| Bonds, notes, and contracts payable (Notes H and I) | 242,607,683 |
| Total noncurrent liabilities | 296,092,146 |
| Total liabilities | 418,229,116 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Split-interest agreements | 1,928,082 |
| Deferred gift revenue (Notes C and D) | 1,006,987 |
| Resources related to pensions (Note K) | 19,539,272 |
| Total deferred inflows of resources | 22,474,341 |
| **NET POSITION** | |
| Net investment in capital assets | 707,397,179 |
| Restricted | |
| Nonexpendable | |
| Scholarships and fellowships | 90,665,839 |
| Instruction | 22,668,392 |
| Loans | 12,879,491 |
| Other | 15,430,996 |
| Expendable | |
| Research, instruction, and public service | 203,834,650 |
| Capital projects | 22,080,583 |
| Unrestricted | 194,423,914 |
| Total net position | $1,269,381,044 |

*The Notes to the Financial Statements are an integral part of this statement*

## Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

| | |
|---|---|
| **OPERATING REVENUES** | |
| Tuition and fees - net (Note A) | $145,663,113 |
| Federal appropriations | 5,000,800 |
| Federal contracts and grants | 192,980,831 |
| State contracts and grants | 9,616,088 |
| Local contracts and grants | 1,162,836 |
| Private contracts and grants | 13,041,353 |
| Sales and services of educational departments | 16,564,204 |
| Conferences and institutes (noncredit) | 9,393,781 |
| Service departments | 1,332,214 |
| Auxiliary enterprises - net (Note A) | 51,957,537 |
| Other | 14,325,741 |
| Total operating revenues | 461,038,498 |
| **OPERATING EXPENSES** | |
| Salaries and wages | 327,128,027 |
| Employee benefits | 124,651,572 |
| Actuarial calculated pension expense (Note K) | 9,019,501 |
| Other operating expenses | 190,616,131 |
| Scholarships and fellowships | 33,417,025 |
| Depreciation | 48,888,124 |
| Total operating expenses | 733,720,380 |
| Operating loss | (272,681,882) |
| **NONOPERATING REVENUES (EXPENSES)** | |
| State appropriations | 203,257,655 |
| State grants | 9,654,279 |
| State land grant revenues | 197,378 |
| Financial aid grants | 44,328,330 |
| Private gifts | 19,165,660 |
| Investment income | 21,129,366 |
| Interest on capital asset related debt | (6,539,164) |
| Other | (11,209,071) |
| Total nonoperating revenues (expenses) | 279,984,433 |
| Income before other revenues | 7,302,551 |
| **OTHER REVENUES** | |
| Capital appropriations | 21,028,230 |
| Capital grants and gifts | 7,168,369 |
| Additions to permanent endowments | 4,442,210 |
| Total other revenues | 32,638,809 |
| Increase in net position | 39,941,360 |
| **NET POSITION — BEGINNING OF YEAR** | 1,229,439,684 |
| **NET POSITION — END OF YEAR** | $1,269,381,044 |

*The Notes to the Financial Statements are an integral part of this statement*

## Statement of Cash Flows
For the Year Ended June 30, 2018

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Tuition and fees receipts | $150,527,881 |
| Federal appropriations receipts | 5,000,800 |
| Contracts and grants receipts | 210,033,694 |
| Sales and services receipts of educational departments | 16,564,204 |
| Conferences and institutes (noncredit) receipts | 9,393,781 |
| Receipts from service departments | 1,370,351 |
| Receipts from auxiliary enterprises | 51,382,592 |
| Other operating receipts | 13,263,114 |
| Payments to employees for salaries and benefits | (456,965,761) |
| Payments to suppliers | (188,918,832) |
| Payments for scholarships and fellowships | (33,417,025) |
| Loans issued to students | (1,164,981) |
| Loan payments received from students | 1,411,977 |
| Net cash used by operating activities | (221,518,205) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| State appropriations | 203,240,441 |
| State grants | 11,075,564 |
| State land grant revenues | 138,303 |
| Financial aid grants | 44,490,976 |
| Private gifts | 21,464,192 |
| Federal direct loan receipts | 55,815,727 |
| Federal direct loan payments | (55,652,166) |
| Other additions | 137,414 |
| Net cash provided by noncapital financing activities | 280,710,451 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Capital appropriations | 12,926,117 |
| Capital grants and gifts | 5,507,301 |
| Proceeds from capital debt | 75,357,569 |
| Other additions | 843,858 |
| Cash paid for capital assets | (94,593,368) |
| Payment of capital debt and leases | (47,829,906) |
| Interest paid on capital asset related debt | (7,770,874) |
| Net cash used by capital and related financing activities | (55,559,303) |

*Table continued on next page*

## Statement of Cash Flows (continued)
For the Year Ended June 30, 2018

| | |
|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Purchases of investments | (162,336,167) |
| Proceeds from sale of investments | 149,689,258 |
| Interest and dividends received from investments | 16,829,737 |
| Net cash provided by investing activities | 4,182,828 |
| Net increase in cash and cash equivalents | 7,815,771 |
| CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR | 74,275,845 |
| CASH AND CASH EQUIVALENTS – END OF YEAR | $82,091,616 |
| | |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES** | |
| Operating loss | ($272,681,882) |
| Adjustments to reconcile operating loss to net cash used by operating activities | |
| Depreciation expense | 48,888,124 |
| Gifts-in-kind and transfers reducing payments to suppliers | 838,215 |
| Changes in assets and liabilities | |
| Accounts receivable | (7,552,507) |
| Inventories | 378,510 |
| Prepaid expenses | (1,171,586) |
| Accounts payable and accrued expenses | 3,269,536 |
| Unearned revenues and deposits | 4,028,994 |
| Compensated absences and early retirement | 3,382,625 |
| Net pension liability | (1,166,662) |
| Net student loan activity | 268,428 |
| Net cash used by operating activities | ($221,518,205) |
| | |
| **NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES** | |
| Fixed assets acquired by incurring capital lease obligations | $233,820 |
| Completed construction projects transferred from State of Utah | 9,988,802 |
| Change in fair value of investments recognized as a component of investment income | 4,236,181 |
| Amortization of premiums, discounts, and net loss on bonds | (1,231,710) |
| Additions to pledges receivable for noncapital financing activities | 2,889,945 |
| Additions to pledges receivable for capital and related financing activities | 2,233,570 |
| Disposal of capital assets due to write off | (2,022,442) |
| Gifts of capital assets | 398,194 |
| Total noncash investing, capital, and financing activities | $16,726,360 |

*The Notes to the Financial Statements are an integral part of this statement*


# NOTES TO FINANCIAL STATEMENTS

The notes to the financial statements communicate information essential for fair presentation of the basic financial statements that is not displayed on the face of the financial statements. As such, the notes form an integral part of the basic financial statements as they present more detailed information about the University's investments, bonds outstanding, capital assets, etc.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*The significant accounting policies followed by Utah State 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 Cooperative Extension Service, Utah State University Uintah Basin Regional Campus, Utah State University Southeast Region, Utah State University Tooele Regional Campus, Utah State University Brigham City Regional Campus, and Utah State University Eastern (USU Eastern), which are separately funded by state appropriations.

The Utah State University Research Foundation (USU Research Foundation), Utah State University Foundation (Foundation), and the College of Eastern Utah Foundation are blended component units of the University and have been consolidated in these financial statements. USU Research Foundation is governed by a Board of Trustees appointed by the president of Utah State University, under the direction of the University's Board of Trustees. USU 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. The Utah State University Foundation is also governed by a Board of Trustees appointed by the president of the University. The Utah State University Foundation is a dependent foundation of Utah State University and serves as the main fund-raising arm of the University. The College of Eastern Utah Foundation is governed by a Board of Trustees appointed by a nominating committee of current members of the Board of Trustees. Its primary role is to support the mission of USU Eastern.

The USU Research Foundation annually publishes audited financial statements. A copy of the audited financial statements can be obtained from USU Research Foundation, 1695 North Research Parkway, North Logan, Utah 84341. The College of Eastern Utah Foundation unaudited financial statements, compiled by an independent accounting firm, are available in the USU Eastern Development Office, 451 East 400 North, Price, Utah 84501.

### 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. When both restricted and unrestricted resources are available, such resources are spent and tracked at the discretion of the department within the guidelines of donor restrictions.

The accounting policies of the University conform in all material respects with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and investments with an original maturity of three months or less.

### INVESTMENTS

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. The University 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 Position.

A portion of the University's endowment portfolio is invested in "alternative investments". These investments, unlike more traditional investments, generally do not have readily obtainable market values and typically take the form of limited partnerships. The University values these investments based on the values provided by the partnerships as well as their audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent capital calls and distributions.

### INVENTORIES

The value of the University Campus Store 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, including the cost of project houses waiting to be sold or under construction. Obsolete or unusable items are reduced to net realizable values.

## NONCURRENT ASSETS

Assets that are externally restricted for capital purposes, to make debt service payments, maintain sinking or reserve funds, or that represent assets of the University's endowments (including real estate held for resale and split-interest agreements) are classified as noncurrent restricted assets.

The remaining noncurrent assets include those receivables that will not be realized within the next year, investments, the cost of land purchased for future project houses, and the University's property, plant, and equipment, net of depreciation.

## PROPERTY, PLANT, AND EQUIPMENT

All buildings are carried on an estimated historical cost basis or at acquisition 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 acquisition 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. Purchased software is capitalized when acquisition costs are $100,000 or more. Buildings costing $250,000 or more are capitalized, as are improvements to buildings costing $250,000 or more that extend the useful life of the building. Improvements other than buildings costing $250,000 or more are also capitalized. All library physical collections inventoried in the University's recognized libraries are capitalized regardless of cost. Art and special collections held by the University are capitalized but not depreciated. 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: *(Figure A.1)*

**FIGURE A.1**

| | |
|---|---|
| Buildings | 10–40 years |
| Improvements other than buildings | 5–20 years |
| Equipment | 3–15 years |
| Purchased software | 5–10 years |
| Library physical collections | 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.

## PENSION RELATED ASSETS, LIABILITIES, DEFERRED OUTFLOWS, AND DEFERRED INFLOWS

The University records its share of any unfunded liability associated with participation in the defined benefit plans of the Utah Retirement Systems (Systems). For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems' Pension Plan and additions to or deductions from the Systems' fiduciary net position are determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. The Systems' Pension Plan investments are reported at fair value.

## UNEARNED REVENUES

Unearned revenues consist primarily of amounts received during the fiscal year that have not yet been earned and are related to the subsequent accounting period. These sources consist of contract and grant sponsors, amounts received for tuition and fees, and certain auxiliary activities.

## 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 of 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 $891,015 of gifts-in-kind, that were recorded as revenue and expense during the fiscal year ended 2018.

## NONCURRENT LIABILITIES

Noncurrent 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, long-term deposits, and net pension liabilities.

## DEFERRED INFLOWS

In fiscal year 2018, the University implemented GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, and has recognized $1,928,082 as a restricted asset along with a deferred inflow of resources for certain irrevocable split-interest agreements. The University has a beneficial interest or right to a portion of the benefits donated, pursuant to an irrevocable split-interest agreement, in which the donor enters into a trust and transfers resources to an intermediary. Asset recognition criteria include: (1) the government is specified by name as beneficiary in the legal document underlying the donation; (2) the donation agreement is irrevocable; (3) the donor has not granted variance power to the intermediary with respect to the donated resources; (4) the donor does not control the intermediary, such that the actions of the intermediary are not influenced by the donor beyond the specified stipulations of the agreement; and (5) the irrevocable split-interest agreement established a legally enforceable right for the government's benefit (an unconditional beneficial interest).

## NET POSITION

The University's net position is classified as follows:

**NET INVESTMENT IN CAPITAL ASSETS:** This represents the University's total investment in capital assets net of 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 net investment in capital assets.

**RESTRICTED – NONEXPENDABLE:** Restricted – nonexpendable net position consists of endowment and similar-type funds which, as a condition of the gift instruments, the donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income. The income may either be expended or added to principal. Also included in this category are funds received from donors for the purpose of providing short and long-term loans to students.

**RESTRICTED – EXPENDABLE:** Restricted – expendable net position includes resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

**UNRESTRICTED:** Unrestricted net position represents 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.

## CLASSIFICATION OF REVENUES AND EXPENSES

**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.

**NONOPERATING REVENUES:** Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, contributions, and other revenue sources that are defined as nonoperating revenues based on 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 nonoperating revenues would include state appropriations and investment income.

**OPERATING/NONOPERATING EXPENSES:** All expenses are classified as operating expenses except interest expense, losses on the disposal of capital assets, and uncollectible gifts.

## SCHOLARSHIP ALLOWANCES

Student tuition and fee revenues are reported net of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Position. 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. To the extent that revenues from other sources 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.

The scholarship allowances for the year ended June 30, 2018 were as follows: *(Figure A.2)*

**FIGURE A.2**

**Scholarship Allowances**

| | |
|---|---|
| Tuition and fees | $85,743,959 |
| Auxiliary enterprises | 738,179 |
| Total scholarship allowances | $86,482,138 |

## 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*.

## B. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents consist of cash and investments with an original maturity of three months or less. Short-term investments consist of investments with an original maturity greater than three months that will mature within one year 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 Treasurers' Investment Fund (PTIF) which is invested in accordance with the State Money Management Act (the Act). The State of Utah 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, 2018, cash and cash equivalents and short-term investments consisted of: *(Figure B.1)*

**FIGURE B.1**

| Cash and Cash Equivalents | |
|---|---|
| Cash | $8,705,741 |
| Money market accounts | 16,200,000 |
| Money market mutual funds | 11,894,634 |
| Utah Public Treasurers' Investment Fund | 45,291,241 |
| Total cash and cash equivalents | $82,091,616 |

| Short-Term Investments | |
|---|---|
| Commercial paper and corporate notes | $56,159,749 |
| Common and preferred stock-options | (24,455) |
| Municipal bonds | 1,075,919 |
| Obligations of United States Government | 188,648 |
| Total short-term investments (fair-value) | $57,399,861 |

## 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. 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 University's Investment Policy, 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 and also includes a management fee.

The endowment income spending policy at June 30, 2018, is 4 percent of the 12 quarter moving average of the market value of the endowment pool with a one year lag. The spending policy is reviewed periodically and any necessary changes are made.

The amount of net appreciation on investments of donor-restricted endowments available for authorization for expenditure at June 30, 2018, is $39,530,709. The net appreciation is a component of restricted-expendable net position.

At June 30, 2018, the investment portfolio composition was as follows: *(Figure C.1)*

**FIGURE C.1**

| Long-Term Investments | |
|---|---|
| Alternatives | $46,961,189 |
| Closely held stocks | 1,006,987 |
| Commercial paper and corporate notes | 120,790,069 |
| Common and preferred stocks | 35,694,927 |
| Municipal bonds | 22,559,669 |
| Mutual funds-bonds | 41,306,937 |
| Mutual funds-equity | 97,323,327 |
| Obligations to the U.S. Government and its agencies | 153,958,046 |
| Total long-term investments (fair value) | $519,601,151 |

## D. DEPOSITS AND INVESTMENTS

### DEPOSITS

CUSTODIAL CREDIT RISK: Custodial credit risk 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.

At June 30, 2018, the carrying amounts of the University's deposits and bank balances were $24,692,003 and $31,018,936, respectively. The bank balances of the University were insured for $1,063,149 by the Federal Deposit Insurance Corporation. The bank balances in excess of $1,063,149 were uninsured and uncollateralized, leaving $29,955,787 exposed to custodial credit risk.

### INVESTMENTS

The State of Utah Money Management Council has the responsibility to advise the Utah State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state, and review the rules adopted under the authority of the State Money Management Act (Utah Code, Title 51, Chapter 7) (the Act) that relate to the deposit and investment of public funds.

Except for endowment funds, the University follows the requirements of the Act in handling its depository and investment transactions. The Act requires the depositing of University funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the State of Utah Money Management Council.

For endowment funds, the University follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), State Board of Regents Policy R541, *Management and Reporting of Institutional Investments* (Policy R541), and the University's Investment Policy and endowment guidelines.

The Act defines the types of securities authorized as appropriate investments for the University's non-endowment funds and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the University to invest in negotiable or non-negotiable deposits of qualified or permitted depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. Government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares of certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurers' Investment Fund (PTIF).

The Utah State Treasurer's Office operates the PTIF. The PTIF is available for investment of funds administered by any Utah public treasurer and is not registered with the Securities and Exchange Commission as an investment company. The PTIF is authorized and regulated by the Act. The Act established the State of Utah Money Management Council which oversees the activities of the Utah State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The UPMIFA and Policy 541 allow the University to invest endowment funds (including gifts, devises, or bequests of property of any kind from any source) in any of the above investments or any of the following, subject to certain criteria: mutual funds registered with the Securities and Exchange Commission, investments sponsored by the Commonfund; any investment made in accordance with the donor's directions in a written instrument; investments in corporate stock listed on a major exchange (direct ownership); and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital and private equity), natural resources, and private real estate assets or absolute return and long/short hedge funds.

The University's Investment Policy allows the University to invest endowment funds in investments authorized by the Act or any of the following investments: readily marketable equities, which are diversified across a spectrum of market capitalizations, multiple regions, by issue, industry, and sector; readily marketable fixed income investments diversified by country, issue, sector, coupon, and quality; bonds having a minimum quality of "A" or better; and alternative investments that derive returns primarily from high-yield and distressed debt (hedged or non-hedged), natural resources, private capital (including venture capital, private equity, both domestic and international), commodities, private real estate assets or absolute return, and long/short hedge funds. In addition endowment funds may be invested as specifically directed by donor agreements.

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

**LEVEL 1:** Quoted prices for identical investments in active markets

**LEVEL 2:** Observable inputs other than quoted market prices

**LEVEL 3:** Unobservable inputs

At June 30, 2018, the University had the following recurring fair value measurements: *(Figure D.1)*

**FIGURE D.1**

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| **INVESTMENTS BY FAIR VALUE LEVEL** | | | | |
| Debt securities | | | | |
| Money market mutual funds | $11,894,634 | $11,894,634 | – | – |
| Utah Public Treasurers' Investment Fund | 45,291,241 | – | $45,291,241 | – |
| Commercial paper and corporate notes | 176,949,816 | – | 176,949,816 | – |
| Municipal bonds | 23,635,588 | – | 23,635,588 | – |
| Mutual funds—bonds | 41,306,937 | 289,436 | 16,627,628 | $24,389,873 |
| U.S. agencies | 150,316,878 | – | 150,316,878 | – |
| U.S. treasury securities | 3,829,816 | 3,712,680 | 117,136 | – |
| **Total debt securities** | 453,224,910 | 15,896,750 | 412,938,287 | 24,389,873 |
| Equity securities | | | | |
| Closely held stock | 1,006,987 | – | – | 1,006,987 |
| Common and preferred stock | 35,694,927 | 35,694,927 | – | – |
| Common and preferred stock-options | (24,455) | (24,455) | – | – |
| Mutual funds—equity | 97,323,327 | 12,965,243 | 54,409,171 | 29,948,913 |
| **Total equity securities** | 134,000,786 | 48,635,715 | 54,409,171 | 30,955,900 |
| **Total investments by fair value level** | 587,225,696 | $64,532,465 | $467,347,458 | $55,345,773 |
| **INVESTMENTS MEASURED AT NET ASSET VALUE (NAV)** | | | | |
| Hedge funds | 4,599,966 | | | |
| International equity | 9,536,443 | | | |
| Private equity core real estate | 8,140,812 | | | |
| Private equity natural resources | 3,282,668 | | | |
| Private equity partnerships | 9,426,784 | | | |
| Private equity real estate funds | 8,894,590 | | | |
| Private infrastructure | 1,548,318 | | | |
| Venture capital funds | 1,531,608 | | | |
| **Total investments measured at (NAV)** | 46,961,189 | | | |
| **Total investments at fair value** | $634,186,885 | | | |

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

U.S. Treasuries, U.S. Agencies, and Commercial Paper: quoted prices for identical securities in markets that are not active

Corporate and Municipal Bonds: quoted prices for similar securities in active markets

Bond and Equity Mutual Funds: published fair value per share (unit) for each fund

Utah Public Treasurers' Investment Fund: application of the June 30, 2018, fair value factor, as calculated by the Utah State Treasurer, to the University's June 30 balance in the fund

Securities, namely bond mutual funds, closely held stock, and equity mutual funds classified in Level 3 are valued manually using various sources such as issuer, investment manager, client, etc., or default price if a price is not provided.

Investments valued using the net asset value per share (or its equivalent) are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. A portion of the University's endowment portfolio is invested in alternative investments. The University values these investments based on the values provided by the partnerships as well as their audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent capital calls and distributions.

The following table presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for the University's alternative investments measured at NAV: *(Figure D.2)*

**FIGURE D.2**

| Investments measured at NAV | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Hedge funds | $4,599,966 | – | Quarterly | 100 days |
| International equity | 9,536,443 | – | Quarterly | 100 days |
| Private equity core real estate | 8,140,812 | – | Quarterly | 30–60 days |
| Private equity natural resources | 3,282,668 | $1,477,028 | N/A | N/A |
| Private equity partnerships | 9,426,784 | 8,078,399 | N/A | N/A |
| Private equity real estate funds | 8,894,590 | 10,541,021 | N/A | N/A |
| Private infrastructure | 1,548,318 | 1,471,829 | N/A | N/A |
| Venture capital funds | 1,531,608 | 107,500 | N/A | N/A |
| Total investments measured at NAV | $46,961,189 | $21,675,777 | | |

INTEREST RATE RISK: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act or the University's Investment Policy, as applicable. For non-endowment funds, the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed-rate negotiable deposits, and fixed-rate corporate obligations to 270 days – 15 months or fewer. The Act further limits the remaining term to maturity on all investments in obligations of the United States Treasury; obligations issued by U.S. government sponsored enterprises; and bonds, notes, and other evidence of indebtedness of political subdivisions of the State to five years. In addition variable-rate negotiable deposits and variable-rate securities may not have a remaining term to final maturity exceeding three years. For endowment funds, the University's Investment Policy requires only that investments be made as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowments and by exercising reasonable care, skill, and caution.

As of June 30, 2018, the University had the following investments and maturities: *(Figure D.3)*

**FIGURE D.3**

| Investment Type | Fair Value | Less than 1 | 1–5 | 6–10 | Greater than 10 |
|---|---|---|---|---|---|
| Money market mutual funds | $11,894,634 | $11,894,634 | – | – | – |
| Utah Public Treasurers' Investment Fund | 45,291,241 | 45,291,241 | – | – | – |
| Commercial paper and corporate notes | 176,949,816 | 56,159,749 | $76,854,152 | $4,418,187 | $39,517,728 |
| Municipal bonds | 23,635,588 | 1,075,919 | 11,555,538 | 5,704,250 | 5,299,881 |
| Mutual funds – bonds | 41,306,937 | – | 18,418,741 | 6,678,788 | 16,209,408 |
| U.S. agencies | 150,316,878 | 188,648 | 4,705,855 | 144,737,014 | 685,361 |
| U.S. treasury securities | 3,829,816 | – | 3,829,816 | – | – |
| Totals | $453,224,910 | $114,610,191 | $115,364,102 | $161,538,239 | $61,712,378 |

**CREDIT RISK:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The University's policy for reducing its exposure to credit risk is to comply with the State Money Management Act and the University's Investment Policy, as previously discussed. As of June 30, 2018, the University had the following investments with quality ratings: *(Figure D.4)*

**FIGURE D.4**

| | | Quality Rating | | | |
|---|---|---|---|---|---|
| Investment Type | Fair Value | AAA | AA | A | BBB |
| Money market mutual funds | $11,894,634 | – | – | – | – |
| Utah Public Treasurers' Investment Fund | 45,291,241 | – | – | – | – |
| Commercial paper and corporate notes | 176,949,816 | $2,113,166 | $21,608,248 | $86,185,876 | $57,364,587 |
| Municipal bonds | 23,635,588 | 14,082,130 | 7,954,971 | 1,264,601 | 233,895 |
| Mutual funds – bonds | 41,306,937 | – | – | – | – |
| U.S. agencies | 150,316,878 | 187,827 | 130,383,305 | – | – |
| U.S. treasury securities | 3,829,816 | – | – | – | – |
| Totals | $453,224,910 | $16,383,123 | $159,946,524 | $87,450,477 | $57,598,482 |

| | Quality Rating | | | |
|---|---|---|---|---|
| Investment Type | BB | B | Unrated | No Risk |
| Money market mutual funds | – | – | $11,894,634 | – |
| Utah Public Treasurers' Investment Fund | – | – | 45,291,241 | – |
| Commercial paper and corporate notes | $2,576,251 | $765,600 | 6,336,088 | – |
| Municipal bonds | – | – | 99,991 | – |
| Mutual funds – bonds | – | – | 41,306,937 | – |
| U.S. agencies | – | – | 19,326,559 | $419,187 |
| U.S. treasury securities | – | – | – | 3,829,816 |
| Totals | $2,576,251 | $765,600 | $124,255,450 | $4,249,003 |

**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 of Utah Money Management Council. For endowment funds, the University policy requires diversification of investments across a broad spectrum and specific limits to concentration of securities within categories of equities, fixed income, and alternatives. Rule 17 of the State of Utah Money Management Council limits non-endowment fund investments in a single issuer of commercial paper and corporate obligations to 5-10 percent depending upon the total dollar amount held in the portfolio at the time of purchase. The State of Utah Money Management Council limitations do not apply to securities issued by the U.S. Government and its agencies.

For endowments, the University, under Policy R541, is permitted to establish its own investment policy which adheres to the guidelines established by UPMIFA. Accordingly, the University's asset allocation guidelines allocate endowment funds in the following asset classes: *(Figure D.5)*

| FIGURE D.5 | Broad Asset Allocation Targets | |
|---|---|---|
| Asset Category | Target % | Range (%) |
| Global Equity | 45 | 35–55 |
| Investment Grade Fixed Income | 15 | 10–20 |
| Opportunistic Fixed Income | 15 | 10–20 |
| Alternative Assets | 25 | 10–30 |

At June 30, 2018, the University held more than 5 percent of total investments in securities of the Federal Home Loan Bank and Federal Farm Credit Bank. These investments represent 8.19 and 10.16 percent, respectively, of the total 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 or collateral securities 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, 2018, the University had $35,694,927 in common and preferred stock, ($24,455) in common and preferred stock-options, $176,949,817 in commercial paper and corporate notes, $23,635,588 in municipal bonds, and $150,316,877 in U.S. agencies which were uninsured and held by the counterparty, but not in the University's name.

## E. ACCOUNTS, CREDITS, AND STUDENT LOANS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2018: *(Figure E.1)*

Credits receivable, $182,488, reflect amounts due from vendors doing business primarily with the University's Campus Store.

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 FPLP loans provide for cancellation of a loan at rates of 10 percent to 30 percent per year up to a maximum of 100 percent if the participant complies with certain provisions. The FPLP loans become payable by the student after completion of academic degrees or termination as a student, with a term of ten years and an interest rate of 5 percent. In the event the University should withdraw from the FPLP or the government were to cancel the program, the amount for which the University would be liable to the federal government as of June 30, 2018, is $10,893,131.

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.

| FIGURE E.1 | Current | Noncurrent | Total |
|---|---|---|---|
| DUE FROM PRIMARY GOVERNMENT | | | |
| State contracts and grants | $1,424,362 | – | $1,424,362 |
| State grant – USTAR | 2,688,460 | – | 2,688,460 |
| Land-grant revenue | 110,122 | – | 110,122 |
| Division of Facilities Construction and Management | 1,900,830 | – | 1,900,830 |
| Due from State of Utah | 138,696 | – | 138,696 |
| DUE FROM OTHERS | | | |
| Contracts and grants | 44,661,447 | – | 44,661,447 |
| Pledges receivable | 1,590,761 | $26,995,071 | 28,585,832 |
| Auxiliary and service enterprises | 1,402,630 | – | 1,402,630 |
| Other activities | 7,178,809 | 360,310 | 7,539,119 |
| Total accounts receivable | 61,096,117 | 27,355,381 | 88,451,498 |
| Less allowance for doubtful accounts | (918,689) | – | (918,689) |
| Net accounts receivable | $60,177,428 | $27,355,381 | $87,532,809 |

Other University short-term loans have a term of two to four months and carry an interest rate of 7 percent to 12 percent. The 12 percent rate applies if the loan becomes delinquent. Notes receivable are as follows: *(Figure E.2)*

**FIGURE E.2**

| | Current | Noncurrent | Total Receivable |
|---|---|---|---|
| Federal Perkins Loan Program | $1,650,598 | $9,442,203 | $11,092,801 |
| Other | 844,508 | 52,220 | 896,728 |
| **Total notes receivable** | 2,495,106 | 9,494,423 | 11,989,529 |
| Less allowance for doubtful accounts | (24,049) | (77,888) | (101,937) |
| **Net notes receivable** | $2,471,057 | $9,416,535 | $11,887,592 |

## F. PROPERTY, PLANT, AND EQUIPMENT

Interest capitalized as part of building construction was $731,509 and is included as part of construction in progress. The University's investment in property, plant, and equipment consists of the following: *(Figure F.1)*

**FIGURE F.1**

| | June 30, 2017 | Additions | Deletions | June 30, 2018 |
|---|---|---|---|---|
| **PROPERTY, PLANT, AND EQUIPMENT NOT DEPRECIATED** | | | | |
| Land | $39,086,326 | $3,184,650 | – | $42,270,976 |
| Construction in progress | | | | |
| Buildings | 67,932,089 | 48,072,856 | ($71,071,848) | 44,933,097 |
| Improvements other than buildings | 2,448,509 | 5,323,324 | (6,806,371) | 965,462 |
| Equipment | 244,481 | 527,914 | (160,344) | 612,051 |
| Art and special collections | 32,690,003 | 4,528,783 | – | 37,218,786 |
| **Total property, plant, and equipment not depreciated** | 142,401,408 | 61,637,527 | (78,038,563) | 126,000,372 |
| **OTHER PROPERTY, PLANT, AND EQUIPMENT** | | | | |
| Buildings | 986,449,327 | 95,789,468 | (544,837) | 1,081,693,958 |
| Improvements other than buildings | 69,709,994 | 6,996,461 | – | 76,706,455 |
| Equipment | 184,403,713 | 17,527,967 | (9,190,527) | 192,741,153 |
| Library collections | 77,667,784 | 547,037 | (63,140) | 78,151,681 |
| **Total other property, plant, and equipment** | 1,318,230,818 | 120,860,933 | (9,798,504) | 1,429,293,247 |
| **LESS ACCUMULATED DEPRECIATION** | | | | |
| Buildings | (367,154,577) | (28,768,276) | 188,210 | (395,734,643) |
| Improvements other than buildings | (40,050,758) | (3,590,633) | – | (43,641,391) |
| Equipment | (135,573,797) | (14,322,419) | 8,042,812 | (141,853,404) |
| Library collections | (60,461,080) | (2,206,796) | 63,140 | (62,604,736) |
| **Total accumulated depreciation** | (603,240,212) | (48,888,124) | 8,294,162 | (643,834,174) |
| **Net other capital assets** | 714,990,606 | 71,972,809 | (1,504,342) | 785,459,073 |
| **CAPITAL ASSETS – SUMMARY** | | | | |
| Capital assets not depreciated | 142,401,408 | 61,637,527 | (78,038,563) | 126,000,372 |
| Other capital assets at cost | 1,318,230,818 | 120,860,933 | (9,798,504) | 1,429,293,247 |
| **Total cost of capital assets** | 1,460,632,226 | 182,498,460 | (87,837,067) | 1,555,293,619 |
| Less accumulated depreciation | (603,240,212) | (48,888,124) | 8,294,162 | (643,834,174) |
| **Net capital assets** | $857,392,014 | $133,610,336 | ($79,542,905) | $911,459,445 |

## G. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2018: *(Figure G.1)*

| FIGURE G.1 | |
|---|---|
| Salaries and benefits payable | $35,746,619 |
| Salaries and benefits payable due to primary government | 3,337,180 |
| Due to primary government | 3,459,574 |
| Suppliers payable | 23,489,987 |
| Interest payable | 1,282,819 |
| Other | 58,017 |
| Total accounts payable and accrued liabilities | $67,374,196 |

## H. BONDS, NOTES, CONTRACTS, AND OTHER NONCURRENT 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. The gross amount of capital assets purchased under capital leases as of June 30, 2018, was $34,238,186 with associated accumulated depreciation of $22,765,666. Bonds, notes, and contracts outstanding at June 30, 2018, were as follows: *(Figure H.1)*

| FIGURE H.1 | |
|---|---|
| BONDS PAYABLE | |
| Stadium/Spectrum and Student Recreation Bonds | |
| Series 2013 2.00%-4.00%, 2013-2026, $8,405,000 | $5,930,000 |
| Series 2013B 3.00%-5.00%, 2014-2045, $43,310,000 | 4,340,000 |
| Series 2015 3.00%-5.00%, 2016-2046, $23,900,000 | 23,030,000 |
| Series 2017 2.00%-5.00%, 2018-2045, $38,825,000 | 38,825,000 |
| Total Stadium/Spectrum and Student Recreation Bonds | 72,125,000 |
| Student Housing System Revenue Bonds | |
| Series 2007 4.00%-5.25%, 2007-2035, $39,155,000 | 35,410,000 |
| Series 2015 3.00%-5.00%, 2016-2038, $24,455,000 | 23,665,000 |
| Series 2016 2.50%-5.00%, 2017-2046, $19,540,000 | 18,660,000 |
| Total Student Housing System Revenue Bonds | 77,735,000 |
| Research Revenue Bonds | |
| Series 2009 2.00%-5.00%, 2009-2019, $22,000,000 | 950,000 |
| Series 2015 1.17%-4.75%, 2016-2047, $19,500,000 | 19,135,000 |
| Series 2015B 3.00%-5.00%, 2016-2031, $13,145,000 | 13,145,000 |
| Series 2016 1.025%-4.049%, 2017-2047, $10,135,000 | 9,920,000 |
| Series 2018A 3.05%, 2018-2028, $6,231,000 | 6,231,000 |
| Series 2018B 3.00%-5.00%, 2018-2050, $32,210,000 | 32,210,000 |
| Total Research Revenue Bonds | 81,591,000 |
| Total bonds payable | 231,451,000 |
| NOTES AND CAPITAL LEASES PAYABLE | |
| State of Utah, 0%, 2018-2023 | 247,053 |
| Bank of America, 4.18%, 2007-2022 | 585,253 |
| Bank of America, 2.54%, 2014-2024 | 5,516,505 |

*Table continued on next page*

| FIGURE H.1 (continued) | |
|---|---|
| Capital One Public Finance, 3.89%, 2014-2029 | 909,613 |
| Zions Bank, 3.01%, 2017-2022 | 1,913,426 |
| SunTrust Leasing Corp., 2.34%, 2013-2022 | 384,412 |
| SunTrust Leasing Corp., 2.078%, 2013-2020 | 74,813 |
| SunTrust Leasing Corp., 2.84%, 2012-2019 | 25,287 |
| SunTrust Leasing Corp., 2.81%, 2012-2019 | 98,700 |
| SunTrust Leasing Corp., 2.72%, 2013-2023 | 1,515,750 |
| SunTrust Leasing Corp., 2.69%, 2013-2020 | 61,517 |
| SunTrust Leasing Corp., 3.11%, 2014-2021 | 111,572 |
| SunTrust Leasing Corp., 2.71%, 2014-2019 | 43,503 |
| SunTrust Leasing Corp., 3.04%, 2014-2021 | 91,139 |
| **Total notes and capital leases payable** | 11,578,543 |
| **EQUIPMENT CONTRACTS PAYABLE** | 29,710 |
| **Total bonds, notes, and equipment contracts payable** | 243,059,253 |
| **UNAMORTIZED PREMIUMS, REOFFERING PREMIUMS (RP), AND DISCOUNTS ON BONDS** | |
| 2007 Bonds - RP | 2,356,621 |
| 2009 Bonds - RP | 1,820 |
| 2013 Bonds - RP | 354,570 |
| 2013B Bonds - premium | 23,711 |
| 2015 (building) Bonds - premium | 461,305 |
| 2015 (housing) Bonds - premium | 733,939 |
| 2015 (research) Bonds - discount | (78,219) |
| 2015B (research) Bonds - premium | 1,595,560 |
| 2016 (housing) Bonds - premium | 783,802 |
| 2018A (building) Bonds - premium | 1,121,124 |
| 2018B (research) Bonds - premium | 1,521,059 |
| **Total unamortized premiums, RPs, and discounts on bonds** | 8,875,292 |
| **Total bonds, notes, and equipment contracts payable net of unamortized premiums, RPs, and discounts on bonds** | $251,934,545 |

Below is a summary of the changes in bonds, notes, and equipment contracts payable for the fiscal year ended June 30, 2018: *(Figure H.2)*

**FIGURE H.2**

| | Bonds | Notes and Capital Leases | Equipment Contracts | Total Payable | Unamortized Premiums and Discounts | Total Net of Premiums and Discounts |
|---|---|---|---|---|---|---|
| **June 30, 2017** | $199,025,000 | $14,211,151 | $127,586 | $213,363,737 | $7,805,603 | $221,169,340 |
| Additions | 77,266,000 | 259,421 | – | 77,525,421 | 2,665,087 | 80,190,508 |
| Deletions | (44,840,000) | (2,892,029) | (97,876) | (47,829,905) | (1,595,398) | (49,425,303) |
| **June 30, 2018** | $231,451,000 | $11,578,543 | $29,710 | $243,059,253 | $8,875,292 | $251,934,545 |

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: *(Figure H.3)*

**FIGURE H.3**

| Fiscal Years | Bonds | Bonds Interest | Notes and Capital Leases | Notes and Capital Leases Interest | Equipment Contracts | Equipment Contracts Interest | Total Amount Required |
|---|---|---|---|---|---|---|---|
| 2019 | $6,701,000 | $8,992,978 | $2,398,571 | $292,811 | $29,710 | $322 | $18,415,392 |
| 2020 | 6,838,000 | 8,729,022 | 2,254,891 | 227,733 | – | – | 18,049,646 |
| 2021 | 7,660,000 | 8,424,031 | 2,252,963 | 164,787 | – | – | 18,501,781 |
| 2022 | 7,993,000 | 8,089,360 | 1,880,859 | 103,337 | – | – | 18,066,556 |
| 2023 | 8,351,000 | 7,736,902 | 1,290,497 | 61,710 | – | – | 17,440,109 |
| 2024–2028 | 45,743,000 | 32,940,152 | 1,448,601 | 70,152 | – | – | 80,201,905 |
| 2029–2033 | 45,535,000 | 23,623,860 | 52,161 | 434 | – | – | 69,211,455 |
| 2034–2038 | 40,965,000 | 15,143,087 | – | – | – | – | 56,108,087 |
| 2039–2043 | 32,855,000 | 8,636,936 | – | – | – | – | 41,491,936 |
| 2044–2048 | 25,360,000 | 2,461,330 | – | – | – | – | 27,821,330 |
| 2049–2050 | 3,450,000 | 111,563 | – | – | – | – | 3,561,563 |
| Totals | $231,451,000 | $124,889,221 | $11,578,543 | $920,964 | $29,710 | $322 | $368,869,760 |

The outstanding balance of bonds defeased and refunded in current and prior years totaled $51,745,000 at June 30, 2018. The bond liabilities of the defeased and refunded bonds are not included on the balance sheet.

Summary of changes in liabilities for the year ended June 30, 2018, is as follows: *(Figure H.4)*

**FIGURE H.4**

| | June 30, 2017 | Additions | Reductions | June 30, 2018 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **BONDS, NOTES, AND CONTRACTS PAYABLE** | | | | | |
| Bonds payable | $206,830,603 | $79,931,087 | ($46,435,398) | $240,326,292 | $6,701,000 |
| Notes and capital leases payable | 14,061,800 | – | (2,730,310) | 11,331,490 | 2,349,099 |
| Notes payable to primary government | 149,351 | 259,421 | (161,719) | 247,053 | 49,472 |
| Equipment contracts payable | 127,586 | – | (97,876) | 29,710 | 29,710 |
| Total bonds, notes, and contracts payable | 221,169,340 | 80,190,508 | (49,425,303) | 251,934,545 | 9,129,281 |
| **OTHER NONCURRENT LIABILITIES** | | | | | |
| Liability for compensated absences | 18,674,285 | 16,026,014 | (14,984,257) | 19,716,042 | 13,914,114 |
| Liability for early retirement | 13,569,751 | 7,471,160 | (5,130,292) | 15,910,619 | 5,845,181 |
| Deposit due to primary government | 465,000 | – | (465,000) | – | – |
| Other liabilities | 1,836,542 | 271,865 | (258,141) | 1,850,266 | 483,255 |
| Net pension liability | 49,248,898 | – | (13,894,465) | 35,354,433 | – |
| Total other noncurrent liabilities | 83,794,476 | 23,769,039 | (34,732,155) | 72,831,360 | 20,242,550 |
| Total noncurrent liabilities | $304,963,816 | $103,959,547 | ($84,157,458) | $324,765,905 | $29,371,831 |

## I. PLEDGED BOND REVENUE

The University issues revenue bonds to provide funds for the construction and renovation of major capital facilities. Investors in these bonds rely solely on the net revenue pledged by the following activities for the retirement of outstanding bonds payable.

**STUDENT FEE AND HOUSING SYSTEM** is comprised of the net revenue from specific auxiliary enterprises and student building fee assessments. The Student Fee and Housing System includes all University housing, Parking Services, certain University Dining Services operations, the net revenues of the Taggart Student Center, Student Building Fees specifically identified in the bond resolution, and land-grant revenues. The University has pledged future net revenues of the Student Fee and Housing System to repay $39,155,000, $24,455,000, and $19,540,000 in bonds issued in May 2007, September 2015, and July 2016, respectively. Proceeds from the 2007 bonds were used to refund bonds issued in 2004 that were issued to provide financing for the construction and renovation of six Student Fee and Housing System buildings, a parking structure, and a dining facility. Proceeds from the 2015 bonds provided financing for the construction of a Student Fee and Housing System building. Proceeds from the 2016 bonds were used to acquire three apartment buildings and associated land. Student Fee and Housing System annual net revenues are projected to produce at least 110 percent of the annual debt service requirements over the life of the bonds. The total principal and interest remaining to be paid on the bonds is $114,375,411. The bonds are payable solely from the Student Fee and Housing System and are payable through 2046.

**STUDENT FEE STADIUM/SPECTRUM RECREATION FACILITIES SYSTEM** is comprised of those student fees specifically identified in the bond resolution and paid by students for the use and availability of the facilities. The University has pledged future revenues of the specifically identified student fees to repay $8,405,000, $43,310,000, $23,900,000, and $38,825,000 in bonds issued in March 2013, August 2013, July 2015, and December 2017, respectively. Proceeds from the 2013 bonds were used to refund a portion of the bonds issued in 2004 that were issued to provide financing for renovating and remodeling portions of the University's football stadium and a student recreation center. Proceeds from the 2013B bonds provided financing for a portion of the cost of constructing, equipping, and furnishing a student recreation center and a facility for basketball practice and volleyball competition. Proceeds from the 2015 bonds provided financing for the construction and renovation of facilities at the University's football stadium. Proceeds from the 2017 bonds were used to refund a portion of the 2013B bonds. This refunding resulted in an increase of $4,832,939 in the net

carrying amount of the refunded debt, a reduction in the future debt service payments of $8,174,380, and an economic gain (difference between the present value of the old and new debt service payments) of $2,807,511. Student fee revenues are projected to produce at least 110 percent of the annual debt service requirements over the life of the bonds. The total principal and interest remaining to be paid on the bonds is $109,790,955. The bonds are payable solely from the Student Fee Stadium/ Spectrum Recreation Facilities System and are payable through 2046.

**RESEARCH REVENUE SYSTEM** is comprised of the revenue generated from the recovery of allocated facilities and administration costs to contracts and grants based on federally approved negotiated rate agreements. The University has pledged future revenues of the Research Revenue System to repay $22,000,000, $19,500,000, $13,145,000, $10,135,000, $6,231,000, and $32,210,000 in bonds issued in May 2009, October 2015, December 2015, July 2016, February 2018, and June 2018, respectively. Proceeds from the 2009 bonds provided financing for the cost of acquiring, constructing, and equipping two research facilities located at the University's main campus and the Vernal, Utah campus. Proceeds from the 2015B bonds were used to refund a portion of the bonds issued in 2009 that were issued to provide financing for the cost of constructing two research facilities located at the University's main campus and the Vernal, Utah campus. Proceeds from the 2015 and 2016 bonds provided financing for the construction of a research facility on the USU Innovation Campus. Proceeds from the 2018A bonds were used to acquire a building and associated land located in Salt Lake County, Utah. Proceeds from the 2018B bonds are providing financing for the construction of a research facility on the USU Innovation Campus. Research Revenue System revenues are projected to produce at least 250 percent of the annual debt service requirements over the life of the bonds. The total principal and interest remaining to be paid on the bonds is $132,173,855. The bonds are payable solely from the Research Revenue System and are payable through 2050.

The following schedule presents the net revenue pledged to the applicable bond system and the principal and interest paid for the year ended June 30, 2018. *(Figure I.1)*

**FIGURE I.1**

| | Student Fee and Housing System | Student Fee Stadium/ Spectrum Recreation Facilities System | Research Revenue System |
|---|---|---|---|
| **REVENUE** | | | |
| Operating revenue/gross profit | $29,083,110 | $6,476,310 | $38,047,678 |
| Nonoperating revenue | 212,349 | – | – |
| **Total revenue** | 29,295,459 | 6,476,310 | 38,047,678 |
| **EXPENSES** | | | |
| Operating expenses | 19,112,627 | – | – |
| **Total expenses** | 19,112,627 | 0 | 0 |
| **Net pledged revenue** | $10,182,832 | $6,476,310 | $38,047,678 |
| **PRINCIPAL PAID AND INTEREST EXPENSE** | $5,418,482 | $4,536,650 | $5,658,566 |
| **DEBT SERVICE RATIO** | 1.88X | 1.43X | 6.72X |

## J. OPERATING LEASES

The University leases ground under noncancelable operating lease agreements which expire in fiscal year 2058. Rental revenue on the operating leases for the fiscal year ended June 30, 2018, was $70,990. Future minimum rental revenues for these noncancelable operating leases are as follows: *(Figure J.1)*

**FIGURE J.1**

| FISCAL YEARS ENDED JUNE 30: | |
|---|---|
| 2019 | $159,780 |
| 2020 | 159,780 |
| 2021 | 159,780 |
| 2022 | 159,780 |
| 2023 | 159,780 |
| Later years | 10,024,529 |
| **Total revenues** | $10,823,429 |

The USU Research Foundation leases various office, warehouse, and other facilities under noncancelable operating lease agreements with expiration dates ranging from fiscal year 2019 through fiscal year 2023. Rental expense on the operating leases for the fiscal year ended June 30, 2018, was $1,654,734. Future minimum rental payments for these noncancelable operating leases are as follows: *(Figure J.2)*

**FIGURE J.2**

| FISCAL YEARS ENDED JUNE 30: | |
|---|---|
| 2019 | $1,674,079 |
| 2020 | 1,319,826 |
| 2021 | 1,174,833 |
| 2022 | 686,644 |
| 2023 | 324,642 |
| **Total payments** | $5,180,024 |

## K. PENSION PLANS AND RETIREMENT BENEFITS

Eligible employees of the University are covered by the Utah Retirement Systems (Systems), Teachers Insurance and Annuity Association (TIAA), and/or Fidelity Investments (Fidelity). Employees may also participate in defined contribution plans consisting of 401(k) and 457 plans managed by the Systems, TIAA, Fidelity, or Educators Mutual Insurance Association (EMIA).

### DEFINED BENEFIT PENSION PLANS

Eligible employees of the University are provided with the following defined benefit pension plans (cost-sharing, multiple-employer plans) administered by the Utah Retirement Systems:

- Public Employees Noncontributory Retirement System (Tier 1 Noncontributory System)
- Public Employees Contributory Retirement System (Tier 1 Contributory System)
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Contributory System)
- Public Safety Retirement System (Public Safety System)
- Tier 2 Public Safety and Firefighter Contributory Retirement Systems (Tier 2 Public Safety Firefighters System)

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with any of the Utah Retirement Systems, are members of the Tier 2 Retirement System. The University began participating in the Tier 2 Public Safety and Firefighter System in 2017.

The Utah Retirement Systems are established and governed by the respective sections of Title 49 of the Utah Code. The Systems' defined benefit plans are amended statutorily by the Utah Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the board, whose members are appointed by the governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds. The Systems are a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms. The Utah Retirement Systems issues a publicly available financial report that may be obtained by writing to the Utah Retirement Systems, 560 East 200 South, Salt Lake City, Utah 84102 or visiting the website: www.urs.org.

**BENEFITS PROVIDED:** The Systems provide retirement, disability, and death benefits to participants in the defined benefit pension plans. Retirement benefits for each defined benefit plan are as follows: *(Figure K.1)*

**FIGURE K.1**

| System | Final Average Salary | Years of Service Required and/or Age Eligible for Benefit | Benefit Percent Per Year of Service | COLA** |
|---|---|---|---|---|
| Tier 1 Noncontributory System | Highest 3 years | 30 years any age<br>25 years any age*<br>20 years age 60*<br>10 years age 62*<br>4 years age 65 | 2.0% per year all years | Up to 4.0% |
| Tier 1 Contributory System | Highest 5 years | 30 years any age<br>25 years any age*<br>20 years age 60*<br>10 years age 62*<br>4 years age 65 | 1.25% per year to June 1975; 2.00% per year July 1975 to present | Up to 4.0% |
| Tier 2 Contributory System | Highest 5 years | 35 years any age<br>20 years age 60*<br>10 years age 62*<br>4 years age 65 | 1.5% per year all years | Up to 2.5% |
| Public Safety System | Highest 3 years | 20 years any age<br>10 years age 60<br>4 years age 65 | 2.5% per year up to 20 years; 2.0% per year over 20 years | Up to 2.5% or 4.0% depending upon employer |
| Tier 2 Public Safety and Firefighter System | Highest 5 years | 25 years any age<br>20 years age 60*<br>10 years age 62*<br>4 years age 65 | 1.5% per year all years | Up to 2.5% |

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

**CONTRIBUTIONS:** As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the Systems' board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable), is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. For the year ended June 30, 2018, the University required contribution rates for the plans were as follows: *(Figure K.2)*

**FIGURE K.2**

| System | Rates Paid by Employee | Rates Paid by Unversity for Employee | University Contribution Rates |
|---|---|---|---|
| Tier 1 Noncontributory System | N/A | N/A | 22.19% |
| Tier 1 Contributory System | N/A | 6.00% | 17.70% |
| Tier 2 Contributory System* | N/A | N/A | 18.44% |
| Public Safety System | N/A | N/A | 41.35% |
| Tier 2 Public Safety and Firefighter System* | N/A | N/A | 29.28% |

** Tier 2 rates include a 10.02% or 18% required contribution to finance the unfunded actuarial accrued liability of the Tier 1 plans.*

For the year ended June 30, 2018, the University and employee contributions to the plans were as follows: *(Figure K.3)*

**FIGURE K.3**

| System | University's Contributions | Employees' Contributions |
|---|---|---|
| Tier 1 Noncontributory System | $8,221,506 | N/A |
| Tier 1 Contributory System | 75,098 | – |
| Tier 2 Contributory System | 1,429,747 | – |
| Public Safety System | 9,732 | – |
| Tier 2 Public Safety and Firefighter System | 147,467 | – |
| **Total contributions** | $9,883,550 | $0 |

Contributions reported are the Utah State Retirement Board approved required contributions by System. Contributions in the Tier 2 Systems are used to finance the unfunded liabilities in the Tier 1 Systems.

**PENSION ASSETS, LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS:** At June 30, 2018, the University reported a net pension asset of $370 and a net pension liability of $35,354,433. The net pension asset and liability were measured as of December 31, 2017, and the total pension liability used to calculate the net pension asset and liability were determined by an actuarial valuation as of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The University's proportion of the net pension asset and liability was based upon actual historical employer contributions to defined benefit pension plans for pay periods ending in 2017. At December 31, 2017, the University's net pension asset and liability were as follows: *(Figure K.4)*

**FIGURE K.4**

| System | Net Pension Asset | Net Pension Liability |
|---|---|---|
| Tier 1 Noncontributory System | – | $34,553,852 |
| Tier 1 Contributory System | – | 122,273 |
| Tier 2 Contributory System | – | 71,351 |
| Public Safety System | – | 606,957 |
| Tier 2 Public Safety and Firefighter System | $370 | – |
| **Total net pension asset/liability** | $370 | $35,354,433 |

For the year ended June 30, 2018, the University recognized pension expense of $9,019,501. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to defined benefit pension plans from the following sources: *(Figure K.5)*

**FIGURE K.5**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $11,621 | $2,084,071 |
| Changes in assumptions | 8,944,836 | 271,233 |
| Net difference between projected and actual earnings on pension plan investments | 6,119,560 | 15,433,200 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 540,724 | 1,750,768 |
| Contributions subsequent to the measurement date | 5,061,020 | – |
| **Total** | $20,677,761 | $19,539,272 |

Contributions made between January 1, 2018, and June 30, 2018, of $5,061,020 are reported as deferred outflows of resources related to pensions. These contributions will be recognized as a reduction of net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows: *(Figure K.6)*

**FIGURE K.6**

| Years Ended December 31 | Deferred Outflows (Inflows) of Resources |
|---|---|
| 2018 | $642,868 |
| 2019 | $1,380,155 |
| 2020 | ($2,645,204) |
| 2021 | ($3,354,414) |
| 2022 | ($15,807) |
| Thereafter | $69,873 |

**ACTUARIAL ASSUMPTIONS:** The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement: *(Figure K.7)*

**FIGURE K.7**

| | | |
|---|---|---|
| Inflation | 2.5% | |
| Salary increases | 3.25%-9.75% | Average, including inflation |
| Investment rate of return | 6.95% | Net of pension plan investment expense, including inflation |

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

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

**CHANGES IN ASSUMPTIONS:** As a result of an experience study conducted as of December 31, 2016, the System's Board adopted recommended changes to several economic and demographic assumptions that are used in the actuarial valuation. The assumption changes that had the largest impact on the Total Pension Liability (and actuarial liability) include a decrease in the investment return assumption from 7.2 percent to 6.95 percent, a reduction in the price inflation assumption from 2.6 percent to 2.5 percent (which also resulted in a corresponding decrease in the cost-of-living-adjustment assumption for the funds with a 4 percent annual COLA max), and the adoption of an updated retiree mortality table that is developed using the System's actual retiree mortality experience. There were changes to several other demographic assumptions, but those changes had a minimal impact on the Total Pension Liability (and actuarial accrued liability).

The long-term expected rate of return on defined benefit pension plan investments was determined using a building-

block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class and is applied consistently to each defined benefit pension plan. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table: *(Figure K.8)*

The 6.95 percent assumed investment rate of return is comprised of an inflation rate of 2.5 percent and a real return of 4.45 percent that is net of investment expense.

**FIGURE K.8**

| Asset Class | Target Asset Allocation | Real Return Arithmetic Basis | Long-Term Expected Portfolio Real Rate of Return |
|---|---|---|---|
| | Expected Return Arithmetic Basis | | |
| Equity securities | 40.00% | 6.15% | 2.46% |
| Debt securities | 20.00% | 0.40% | 0.08% |
| Real assets | 15.00% | 5.75% | 0.86% |
| Private equity | 9.00% | 9.95% | 0.89% |
| Absolute return | 16.00% | 2.85% | 0.46% |
| Cash and cash equivalents | 0.00% | 0.00% | 0.00% |
| Total | 100.00% | | 4.75% |
| Inflation | | | 2.50% |
| Expected arithmetic nominal return | | | 7.25% |

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

**FIGURE K.9**

| Systems | 1% Decrease 5.95% | Discount Rate 6.95% | 1% Increase 7.95% |
|---|---|---|---|
| | Proportionate Share of Net Pension Liability (Asset) | | |
| Tier 1 Noncontributory System | $75,445,679 | $34,553,852 | $376,515 |
| Tier 1 Contributory System | 1,611,419 | 122,273 | (1,145,520) |
| Tier 2 Contributory System | 840,125 | 71,351 | (521,484) |
| Public Safety System | 1,261,245 | 606,957 | 69,615 |
| Tier 2 Public Safety and Firefighter System | 3,276 | (370) | (3,156) |
| Total net pension liability | $79,161,744 | $35,354,063 | ($1,224,030) |

SENSITIVITY OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET AND LIABILITY TO CHANGES IN THE DISCOUNT RATE: The following presents the proportionate share of the net pension asset and liability calculated using the discount rate of 6.95 percent, as well as what the proportionate share would be if calculated using a discount rate that is 1 percentage point lower (5.95%) or 1 percentage point higher (7.95%) than the current rate: *(Figure K.9)*

PENSION PLAN FIDUCIARY NET POSITION: Detailed information about the pension plan's fiduciary net position is available in the separately issued Systems' financial report.

## DEFINED CONTRIBUTION PLANS

Defined contribution plans are available as supplemental plans to the basic retirement benefits of the defined benefit pension plans and as a primary retirement plan for some Tier 2 participants. Participants in the defined contribution plans are fully vested in employer and employee contributions at the time the contributions are made, except Tier 2 required employer contributions and associated earnings are vested after four years of employment. Benefits depend on amounts contributed to the plans plus investment earnings. Individual accounts are provided for each employee and are available at termination, retirement, death, or unforeseeable emergency.

401(k), TIER 2 DC, AND 457 PLANS: For employees participating in defined benefit plans, the University is also required to contribute 1.26 – 1.58 percent of the employee's salary into a 401(k)/457 plan. For employees who choose to participate in the Tier 2 Public Employee or Public Safety and Firefighter defined contribution plans (Tier 2 DC), the University is required to contribute 20.02 or 30.54 percent of the employees' salary of which 10 or 12.54 percent is paid into a 401(k)/457 plan while the remainder is contributed to the Tier 1 Systems, as required by law.

**EMIA:** EMIA provides a 401(k) defined contribution plan that can be utilized by employees on the Utah Retirement State and School System — Noncontributory plan. This contribution is in lieu of the 1.5 percent that would have been contributed to the Utah Retirement System's 401(k) plan. The contribution made by the University is at 1.5 percent of gross earnings. Contributions by the University become vested at the time the contribution is made.

**TIAA AND/OR FIDELITY:** TIAA and/or Fidelity provide individual defined contribution retirement fund contracts with each participating employee. Employees may allocate contributions by the University to any or all of the providers and the contracts become vested at the time the contribution is made. Employees are eligible to participate from the date of employment and are not required to contribute to the fund. Benefits provided to retired employees are based on the value of individual contracts and the estimated life expectancy of the employee at retirement. The University's contribution to this multiple employer defined contribution plan is 14.2 percent of the employees' annual salary. The University has no further liability once annual contributions are made.

Employees can make additional contributions to defined contribution plans subject to limitations. Contributions to the defined contribution plans for the fiscal year ending June 30, 2018, were as follows: *(Figure K.10)*

**FIGURE K.10**

| Defined Contribution Plans | University's Contributions | Employees' Contributions |
|---|---|---|
| Tier 2 Defined Contribution Plan | $305,643 | – |
| 401(k) Plan | $1,037,485 | $990,404 |
| 457 Plan and other individual plans | – | $92,101 |
| EMIA | $16,083 | $55,879 |
| TIAA and/or Fidelity | $31,771,216 | $9,403,630 |

## L. TERMINATION BENEFITS

The University provides an early retirement option to employees who qualify and are approved by administration in accordance with University policy. This option is available to all employees whose accumulated age and years of service are equal to or greater than 75, that have met the minimum age requirements, and where early retirement is in the mutual best interest of the employee and the University.

The policy provides two mutually exclusive early retirement options for eligible employees; either six years (16.67 percent of base salary per year) or five years (20 percent of base salary per year). The six-year option requires a minimum age of 56 and the five-year option requires a minimum age of 57. Benefits include a monthly stipend equal to the agreed upon percent of the retiree's salary at the time of active employment along with medical and dental insurance.

The projected future cost of these stipends and the medical and dental insurance benefits have been calculated based on the known amount to be paid out in the next fiscal year plus projected increases of 1.15 percent (University), 3 percent (USU Research Foundation) for stipends and 6.6 to 7.8 percent (University), 9 percent (USU Research Foundation) for medical and dental premiums. These increases are based on historical data. The premiums for medical and dental benefits have also been increased by an age adjusted factor of 3.07. The net present value of the total projected costs is calculated using the estimated yield of 2.002 percent (University) and 4.17 percent (USU Research Foundation). The net present value is the amount recognized on the financial statements as the liability for early retirement.

At June 30, 2018, there were 140 participants in the early retirement program. The program is funded on a pay-as-you-go basis from current funds. Payments for the stipends and insurance benefits for the fiscal year ending June 30, 2018, were $1,773,049 and $1,178,243, respectively.

## M. 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

The University has a self-insurance fund for employee health and dental care. In addition, the University has purchased a stop-loss insurance policy to cover specific participant claims exceeding $400,000 per term and an aggregating specific stop-loss deductible of $600,000 per term. This policy also covers aggregate claims exceeding 125 percent of expected claims up to $10 million. GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable that a liability has been incurred at the date of the financial statements. The estimated claims liability is based upon past experience adjusted for current trends. The estimate reflects the ultimate cost of settling the claims. The University's estimated self-insurance claims liability at June 30, 2018, and June 30, 2017, were as follows: *(Figure M.1)*

**FIGURE M.1**

| | 2018 | 2017 |
|---|---|---|
| Estimated claims liability at beginning of year | $6,012,390 | $6,101,473 |
| Current year claims and changes in estimates | 51,734,363 | 50,102,213 |
| Claim payments, including related legal and administrative expenses | (52,098,605) | (50,191,296) |
| **Estimated claims liability at end of year** | $5,648,148 | $6,012,390 |

The University has recorded the investment of the health and dental care funds at June 30, 2018, and the estimated liability for self-insurance claims at that date in the Statement of Net Position. The income on fund investments, the expenses related to the administration of the self-insurance, and the estimated provision for the claims liabilities for the year then ended are recorded in the Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Net Position.

## CONTINGENCIES

The Advanced Weather Systems Foundation (AWSF), the Utah State University Research Foundation, and other unrelated third parties have been named as defendants in a pending lawsuit. AWSF and USU Research Foundation are nonprofit corporations that are affiliated with Utah State University, but organized and operated as separate legal entities. AWSF and USU Research Foundation deny all claims and are vigorously defending the lawsuit. However, at this point in the litigation, potential liability and damages to any party involved is difficult, if not impossible, to assess.

The USU Research Foundation has a bank revolving line of credit with a limit of $3 million. At June 30, 2018, the outstanding balance was zero. The line of credit bears interest at an initial rate of 5 percent, is unsecured, due on demand, and expires January 10, 2020.

## COMMITMENTS

At June 30, 2018, the University had outstanding construction commitments of approximately $46.4 million.

## N. NATURAL AND FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the fiscal year ended June 30, 2018, were as follows: *(Figure N.1)*

**FIGURE N.1**

| Functional Classification | Natural Classification | | | | | |
|---|---|---|---|---|---|---|
| | Salaries and Wages | Employee Benefits | Other Operating Expenses | Scholarships and Fellowships | Depreciation | Total |
| Instruction | $118,483,625 | $48,440,403 | $31,728,084 | – | – | $198,652,112 |
| Research | 67,478,787 | 29,098,540 | 64,238,822 | – | – | 160,816,149 |
| Public service | 30,774,322 | 11,410,081 | 26,857,572 | – | – | 69,041,975 |
| Academic support | 21,723,902 | 9,163,029 | 8,862,759 | – | – | 39,749,690 |
| Student services | 14,086,154 | 5,323,770 | 8,162,081 | – | – | 27,572,005 |
| Institutional support | 32,597,259 | 13,758,320 | 10,410,542 | – | – | 56,766,121 |
| Operation and maintenance | 13,562,544 | 5,575,912 | 31,030,910 | – | – | 50,169,366 |
| Scholarships and fellowships | – | – | – | $33,417,025 | – | 33,417,025 |
| Service departments | 8,373,819 | 3,683,824 | (14,097,970) | – | – | (2,040,327) |
| Auxiliary enterprises | 20,047,615 | 7,217,194 | 23,423,331 | – | – | 50,688,140 |
| Depreciation | – | – | – | – | $48,888,124 | 48,888,124 |
| **Total operating expenses** | $327,128,027 | $133,671,073 | $190,616,131 | $33,417,025 | $48,888,124 | $733,720,380 |

## O. BLENDED PRESENTATION OF COMPONENT UNITS

The following is a condensed version of Utah State University Research Foundation's and Utah State University Foundation's financial statements for the fiscal year ended June 30, 2018: *(Figures O.1, O.2, and O.3)*

**FIGURE O.1**

**Component Units**
**Condensed Statement of Net Position**
June 30, 2018

| | USU Research Foundation | Foundation |
|---|---|---|
| **ASSETS** | | |
| Current assets | $38,410,259 | – |
| Current assets due from the University | 11,336 | $59,291,317 |
| Noncurrent assets | 34,030,063 | 1,563,239 |
| Noncurrent assets due from the University | – | 104 |
| Net capital assets | 50,652,894 | – |
| **Total assets** | 123,104,552 | 60,854,660 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Resources related to pensions | 1,509,400 | – |
| **Total deferred outflows of resources** | 1,509,400 | 0 |
| **LIABILITIES** | | |
| Current liabilities | 19,750,432 | – |
| Current liabilities due to the University | 2,568,402 | – |
| Noncurrent liabilities | 9,849,354 | – |
| Noncurrent liabilities due to the University | 60,675,000 | – |
| **Total liabilities** | 92,843,188 | 0 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Resources related to pensions | 1,085,567 | – |
| **Total deferred inflows of resources** | 1,085,567 | 0 |
| **NET POSITION** | | |
| Net investment in capital assets | 19,997,939 | – |
| Restricted | | |
| Nonexpendable | | |
| Primarily scholarships and fellowships | – | 28,299,356 |
| Instruction | – | 12,660,362 |
| Other | – | 10,268,294 |
| Expendable | | |
| Research, instruction, and public service | – | 9,516,014 |
| Unrestricted | 10,687,258 | 110,634 |
| **Total net position** | $30,685,197 | $60,854,660 |

FIGURE O.2

## Component Units
### Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

| | USU Research Foundation | Foundation |
|---|---|---|
| **OPERATING REVENUES** | | |
| Project revenues | $84,912,992 | – |
| Project unit indirect costs, general and administrative costs, and cost of money | 25,844,480 | – |
| Project fees | 7,177,560 | – |
| Administrative reimbursement, USU | 186,170 | – |
| Royalty income | 173,001 | – |
| Other | 1,426,160 | – |
| Total operating revenues | 119,720,363 | $0 |
| **OPERATING EXPENSES** | | |
| Salaries and wages | 43,161,281 | – |
| Employee benefits | 24,221,412 | – |
| Subcontracts | 14,671,316 | – |
| Depreciation and amortization | 3,350,083 | – |
| Research support to USU | 486,804 | – |
| Other | 26,765,212 | – |
| Total operating expenses | 112,656,108 | 0 |
| Operating income | 7,064,255 | 0 |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Private gifts | – | 33,787 |
| Other – net | (1,144,722) | 1,692,504 |
| Total nonoperating revenues (expenses) | (1,144,722) | 1,726,291 |
| Income before other revenues | 5,919,533 | 1,726,291 |
| **OTHER REVENUES** | | |
| Additions to permanent endowments | – | 3,163,225 |
| Total other revenues | – | 3,163,225 |
| Increase in net position | 5,919,533 | 4,889,516 |
| **NET POSITION – BEGINNING OF YEAR** | 24,765,664 | 55,965,144 |
| **NET POSITION – END OF YEAR** | $30,685,197 | $60,854,660 |

FIGURE O.3

## Component Units
## Condensed Statement of Cash Flows
For the Year Ended June 30, 2018

| | USU Research Foundation | Foundation |
|---|---|---|
| NET CASH PROVIDED (USED) BY: | | |
| (1) Operating activities | $14,053,619 | – |
| (2) Noncapital financing activities | – | – |
| (3) Capital and related financing activities | 9,366,972 | $3,097,478 |
| (4) Investing activities | 68,758 | (3,891,047) |
| Net increase (decrease) in cash and cash equivalents | 23,489,349 | (793,569) |
| CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR | 25,657,011 | 1,404,307 |
| CASH AND CASH EQUIVALENTS – END OF YEAR | $49,146,360 | $610,738 |

*The University has not included the Advanced Weather Systems Foundation's of the College of Eastern Utah Foundation's financial statements because they are not considered to be material.*

# REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information is to accompany the basic financial statements and is considered an essential part of financial reporting.

## Proportionate Share of Net Pension Liability

As of December 31

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **TIER 1 NONCONTRIBUTORY SYSTEM** | | | | |
| Proportion of net pension liability (asset) | 1.4130362 % | 1.4648385 % | 1.4867052 % | 1.4526055 % |
| Proportionate share of net pension liability (asset) | $34,553,853 | $47,474,199 | $46,701,668 | $36,497,130 |
| Covered payroll | $37,654,734 | $38,162,282 | $37,975,366 | $37,798,518 |
| Proportionate share of net pension liability (asset) as a percentage of covered payroll | 91.76 % | 124.40 % | 122.98 % | 96.56 % |
| Plan fiduciary net position as a percentage of total pension liability | 89.2 % | 84.9 % | 84.5 % | 87.2 % |
| **TIER 1 CONTRIBUTORY SYSTEM** | | | | |
| Proportion of net pension liability (asset) | 1.8581414 % | 1.6628695 % | 1.3777110 % | 1.2745733 % |
| Proportionate share of net pension liability (asset) | $122,273 | $911,182 | $863,346 | $139,755 |
| Covered payroll | $422,780 | $445,761 | $436,427 | $460,897 |
| Proportionate share of net pension liability (asset) as a percentage of covered payroll | 28.92 % | 204.41 % | 197.82 % | 30.32 % |
| Plan fiduciary net position as a percentage of total pension liability | 99.2 % | 93.4 % | 92.4 % | 98.7 % |
| **TIER 2 CONTRIBUTORY SYSTEM** | | | | |
| Proportion of net pension liability (asset) | 0.8092727 % | 1.1108095 % | 1.4678273 % | 1.5274314 % |
| Proportionate share of net pension liability (asset) | $71,351 | $123,910 | ($3,204) | ($46,288) |
| Covered payroll | $7,926,941 | $9,109,512 | $9,484,328 | $7,493,666 |
| Proportionate share of net pension liability (asset) as a percentage of covered payroll | 0.90 % | 1.36 % | (0.03)% | (0.62)% |
| Plan fiduciary net position as a percentage of total pension liability | 97.4 % | 95.1 % | 100.2 % | 103.5 % |
| **PUBLIC SAFETY SYSTEM** | | | | |
| Proportion of net pension liability (asset) | 0.3490530 % | 0.3459203 % | 0.3435487 % | 0.3425260 % |
| Proportionate share of net pension liability (asset) | $606,957 | $739,607 | $739,614 | $636,495 |
| Covered payroll | $604,061 | $636,766 | $607,776 | $566,992 |
| Proportionate share of net pension liability (asset) as a percentage of covered payroll | 100.48 % | 116.15 % | 121.69 % | 112.26 % |
| Plan fiduciary net position as a percentage of total pension liability | 87.4 % | 83.5 % | 82.3 % | 84.3 % |
| **TIER 2 PUBLIC SAFETY AND FIREFIGHTER SYSTEM** | | | | |
| Proportion of net pension liability (asset) | 0.0319725 % | 0.0069305 % | N/A | N/A |
| Proportionate share of net pension liability (asset) | ($370) | ($60) | N/A | N/A |
| Covered payroll | $33,753 | $5,726 | N/A | N/A |
| Proportionate share of net pension liability (asset) as a percentage of covered payroll | (1.10)% | (1.05)% | N/A | N/A |
| Plan fiduciary net position as a percentage of total pension liability | 103.0 % | 103.60 % | N/A | N/A |

*Note: The University implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, in fiscal year 2015. Information on the University's portion of the plan's net pension liability (asset) is not available for periods prior to fiscal year 2015.*

## Schedule of Contributions to the Utah Retirement Systems

For Fiscal Years Ending June 30

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| **TIER 1 NONCONTRIBUTORY SYSTEM** | | | | |
| Contractually required contribution | $8,221,506 | $8,329,180 | $8,355,894 | $9,328,000 |
| Contributions in relation to the contractually required contribution | 8,221,506 | 8,329,180 | 8,355,894 | 9,328,000 |
| **Contribution deficiency (excess)** | $0 | $0 | $0 | $0 |
| Covered payroll | $37,531,241 | $37,968,122 | $37,998,840 | $37,836,787 |
| Contributions as a percentage of covered payroll | 21.91 % | 21.94 % | 21.99 % | 24.65 % |
| **TIER 1 CONTRIBUTORY SYSTEM*** | | | | |
| Contractually required contribution | $75,098 | $77,250 | $78,211 | $102,041 |
| Contributions in relation to the contractually required contribution | 75,098 | 77,250 | 78,211 | 102,041 |
| **Contribution deficiency (excess)** | $0 | $0 | $0 | $0 |
| Covered payroll | $423,200 | $436,438 | $441,871 | $430,553 |
| Contributions as a percentage of covered payroll | 17.75 % | 17.70 % | 17.70 % | 23.70 % |
| **TIER 2 CONTRIBUTORY SYSTEM*** | | | | |
| Contractually required contribution** | $1,429,747 | $1,514,256 | $1,862,036 | $694,490 |
| Contributions in relation to the contractually required contribution** | 1,429,747 | 1,514,256 | 1,862,036 | 694,490 |
| **Contribution deficiency (excess)** | $0 | $0 | $0 | N/A |
| Covered payroll | $7,746,141 | $8,300,188 | $10,208,536 | $8,337,218 |
| Contributions as a percentage of covered payroll | 18.46 % | 18.24 % | 18.24 % | 8.33 % |
| **PUBLIC SAFETY SYSTEM** | | | | |
| Contractually required contribution | $147,467 | $181,751 | $167,710 | $162,713 |
| Contributions in relation to the contractually required contribution | 147,467 | 181,751 | 167,710 | 162,713 |
| **Contribution deficiency (excess)** | $0 | $0 | $0 | $0 |
| Covered payroll | $583,908 | $632,820 | $600,578 | $582,052 |
| Contributions as a percentage of covered payroll | 25.26 % | 28.72 % | 27.92 % | 27.96 % |
| **TIER 2 PUBLIC SAFETY AND FIREFIGHTER SYSTEM** | | | | |
| Contractually required contribution** | $9,732 | $4,820 | N/A | N/A |
| Contributions in relation to the contractually required contribution** | 9,732 | 4,820 | N/A | N/A |
| **Contribution deficiency (excess)** | $0 | $0 | N/A | N/A |
| Covered payroll | $33,238 | $16,500 | N/A | N/A |
| Contributions as a percentage of covered payroll | 29.28 % | 29.21 % | N/A | N/A |

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| | | | | | | |
| | $7,664,202 | $6,949,647 | $6,709,673 | $6,124,421 | $5,535,903 | $5,931,890 |
| | 7,664,202 | 6,949,647 | 6,709,673 | 6,124,421 | 5,535,903 | 5,931,890 |
| | $0 | $0 | $0 | $0 | $0 | $0 |
| | $35,009,064 | $36,016,837 | $40,154,027 | $37,363,709 | $38,965,526 | $41,717,161 |
| | 21.89 % | 19.30 % | 16.71 % | 16.39 % | 14.21 % | 14.22 % |
| | | | | | | |
| | $604,902 | $416,961 | $214,370 | $110,196 | $111,532 | $130,346 |
| | 604,902 | 416,961 | 214,370 | 110,196 | 111,532 | 130,346 |
| | $0 | $0 | $0 | $0 | $0 | $0 |
| | $6,387,208 | $4,212,028 | $1,952,662 | $616,240 | $708,916 | $828,648 |
| | 9.47 % | 9.90 % | 10.98 % | 17.88 % | 15.73 % | 15.73 % |
| | | | | | | |
| | N/A | N/A | N/A | N/A | N/A | N/A |
| | N/A | N/A | N/A | N/A | N/A | N/A |
| | N/A | N/A | N/A | N/A | N/A | N/A |
| | N/A | N/A | N/A | N/A | N/A | N/A |
| | N/A | N/A | N/A | N/A | N/A | N/A |
| | | | | | | |
| | $137,607 | $138,459 | $135,408 | $104,135 | $119,548 | $104,897 |
| | 137,607 | 138,459 | 135,408 | 104,135 | 119,548 | 104,897 |
| | $0 | $0 | $0 | $0 | $0 | $0 |
| | $506,773 | $528,817 | $562,846 | $315,243 | $396,118 | $373,445 |
| | 27.15 % | 26.18 % | 24.06 % | 33.03 % | 30.18 % | 28.09 % |
| | | | | | | |
| | N/A | N/A | N/A | N/A | N/A | N/A |
| | N/A | N/A | N/A | N/A | N/A | N/A |
| | N/A | N/A | N/A | N/A | N/A | N/A |
| | N/A | N/A | N/A | N/A | N/A | N/A |
| | N/A | N/A | N/A | N/A | N/A | N/A |

**The Tier 2 Public Employees System (Tier 2) was created in fiscal year 2012. However, the contractually required contributions and covered payroll for Tier 2 were included in the Contributory System for fiscal years 2012 and 2013, since prior to the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, Tier 2 information was not separately available.*

***Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems. Tier 2 systems were created effective July 1, 2011.*

## CHANGES IN ASSUMPTIONS

As a result of an experience study conducted as of December 31, 2016, the System's Board adopted recommended changes to several economic and demographic assumptions that are used in the actuarial valuation. The assumption changes that had the largest impact on the Total Pension Liability (and actuarial liability) include a decrease in the investment return assumption from 7.2 percent to 6.95 percent, a reduction in the price inflation assumption from 2.6 percent to 2.5 percent (which also resulted in a corresponding decrease in the cost-of-living-adjustment assumption for the funds with a 4 percent annual COLA max), and the adoption of an updated retiree mortality table that is developed using the System's actual retiree mortality experience. There were changes to several other demographic assumptions, but those changes had a minimal impact on the Total Pension Liability (and actuarial accrued liability).

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