



UTAH SYSTEM OF  
HIGHER EDUCATION

# MEMORANDUM

TAB I

January 13, 2022

## Annual Financial Statements - 2021

The attached financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) principles. These statements and the associated Management Discussion & Analysis give insight into the Office of the Commissioner of Higher Education (OCHE) operations. Management of the office is doing a good job controlling expenditures and ensuring that the office has the resources it needs to meet the Board's objectives of advancing higher education within the state. The budget for the office is being closely tracked, and OCHE is stable and financially sound.

### **Commissioner's Recommendation**

This is an information item; no action is required.

### **Attachment**



UTAH  
SYSTEM OF  
HIGHER  
EDUCATION

OFFICE OF THE COMMISSIONER

**ANNUAL FINANCIAL REPORT**  
2020-21

November 2021



# Management Discussion and Analysis

For the Year Ended June 30, 2021

Utah Board of Higher Education  
Office of the Commissioner  
of Higher Education

## Introduction

The following discussion and analysis provide an overview of the financial position and activities of the Office of the Commissioner of Higher Education (OCHE) for the year ended June 30, 2021. This discussion was prepared by management and should be read in conjunction with the accompanying financial statements and the notes thereto, which follow this section.

The Utah Board of Higher Education (UBHE), formerly known as the Board of Regents, was formed over 50 years ago to govern the Utah System of Higher Education (USHE) consistent with state law, with delegated and vested certain powers to institutional boards of trustees and institutional presidents of the various state colleges and universities. The board appoints a commissioner of higher education to serve as the chief executive officer and a staff of professional and administrative personnel to fulfill the needs of the UBHE and USHE.

## Financial

OCHE's financial report is prepared in accordance with Governmental Accounting Standards Board (GASB) principles and consists of three basic financial statements that provide financial information on OCHE as a whole: The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. Each of these statements will be discussed.

Revenues and expenses are categorized as operating and non-operating. Significant recurring sources of OCHE's revenues, including state appropriations which make up the majority of OCHE's revenue sources are considered non-operating as defined by GASB Statement No. 34 (*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*).

OCHE administers its funds within the financial system of the University of Utah.

## Statement of Net Assets

The Statement of Net Assets is a list of the Assets and Liabilities of OCHE on June 30, with the difference being the Net Assets. The Net Assets are categorized as "Restricted" (Expendable or Nonexpendable) or "Unrestricted." Restricted Nonexpendable Net Assets are funds that are held in perpetuity (OCHE held no Restricted Nonexpendable Net Assets at June 30<sup>th</sup>). Restricted Expendable Net Assets are subject to externally imposed restrictions governing their use (OCHE held \$3,177,205 in Restricted Expendable Net Assets at the end of the fiscal year). All other Net Assets are listed as Unrestricted (OCHE held \$6,253,845 of Unrestricted Net Assets at the end of the fiscal year).



# Management Discussion and Analysis

For the Year Ended June 30, 2021

Utah Board of Higher Education  
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## Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets present OCHE's results of operations for the year ended June 30. In Fiscal Year 2021, OCHE had a net increase in Net Assets of \$4,592,400.

## Statement of Cash Flows

The Statement of Cash Flows provides an additional perspective on OCHE's financial results for the fiscal year. The statement identifies sources and uses of cash by broad categories of activity.

Noncapital Financing Activities include state appropriations, government grants, other non-operating revenue and expenses. Capital Financing Activities are those associated with capital assets such as capital appropriations, gifts, proceeds from capital debt, purchase of assets and capital debt payments which OCHE did not have. Investing Activities include interest earnings from a PTIF account, where a portion of OCHE's funds reside until needed.

## Economic Factors that May Affect the Future

The System is continuing to see a strong commitment from the state to Higher Education's Goals for an educated workforce, as well as a strong commitment to the people of our state. The USHE Institutions and OCHE remain fully engaged in these efforts and are constantly looking for innovative ways to get more Utahn's affordable access to higher education.

During Fiscal Year 2021, the COVID-19 pandemic continued to challenge institutions financially. Federal relief funds backfilled related expenses in hardest hit areas such as enrollments, auxiliaries, workforce, and pandemic supplies and testing. Everything indicates that the institutions are faring the effects of the pandemic well now and into the future.



# Financial Statements

For the Year Ended June 30, 2021

Utah Board of Higher Education  
Office of the Commissioner  
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## Office of the Commissioner of Higher Education UTAH BOARD OF HIGHER EDUCATION STATEMENT OF NET ASSETS

As of June 30, 2021

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Note B)	2,445,896	5,934,286
<b>Total Current Assets</b>	<u>2,445,896</u>	<u>5,934,286</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents (Note B)	-	-
Investments (Note B)	7,830,387	-
Notes and Loans Receivable, Net (Note C & D)	-	-
Real Estate	-	-
Capital Assets, Net of Accumulated Depreciation (Note G)	-	-
<b>Total Noncurrent Assets</b>	<u>7,830,387</u>	<u>-</u>
<b>Total Assets</b>	<u>10,276,283</u>	<u>5,934,286</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	787,456	952,381
<b>Total Current Liabilities</b>	<u>787,456</u>	<u>952,381</u>
Noncurrent Liabilities:		
Compensated Absences	57,777	143,255
<b>Total Noncurrent Liabilities</b>	<u>57,777</u>	<u>143,255</u>
<b>Total Liabilities</b>	<u>845,233</u>	<u>1,095,636</u>
<b>NET ASSETS</b>		
Restricted-Expendable: Scholarships	536,483	528,662
Restricted-Expendable: Other	2,640,722	2,496,415
Unrestricted	6,253,845	1,813,573
<b>Total Net Assets</b>	<u>9,431,050</u>	<u>4,838,650</u>



# Financial Statements

For the Year Ended June 30, 2021

Utah Board of Higher Education  
Office of the Commissioner  
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## Office of the Commissioner of Higher Education

### UTAH BOARD OF HIGHER EDUCATION

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

As of June 30, 2021

	<u>2021</u>	<u>2020</u>
<b>Operating Revenues:</b>		
Government Grants	-	-
Total Operating Revenues	-	-
<b>Operating Expenses:</b>		
Salaries	4,454,926	3,343,225
Benefits	1,618,688	1,458,764
Services and Supplies	1,368,626	1,312,181
Building Rent & Utilities	6,023	507,920
Government Grants	109,523	(32,784)
Other Operating Expenses	200,699	169,350
Total Operating Expenses	7,758,485	6,758,656
<b>Operating Income (Loss)</b>	<u>(7,758,485)</u>	<u>(6,758,656)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Government Appropriations - State	60,084,300	82,517,000
Other Nonoperating Revenue	140,000	422,092
Investment Income - Interest	28,410	-
Government Appropriations - State	(47,791,949)	(78,020,583)
Other Nonoperating Expenses	(110,512)	(559,606)
Net Nonoperating Revenue	12,350,249	4,358,903
<b>Income (Loss) Before Other Revenue (Expenses)</b>	<u>4,591,764</u>	<u>(2,399,753)</u>
<b>Other Revenues (Expenses) - Pass-Through</b>		
Pass-Through Revenues	321,304	5,460,007
Pass-Through Expenses	(320,669)	(5,460,238)
Total Other Revenue	636	(231)
<b>Increase (Decrease) in Net Assets</b>	4,592,400	(2,399,984)
<b>Net Assets - Beginning of Year</b>	4,838,650	7,238,634
<b>Net Assets - End of Year</b>	<u>9,431,050</u>	<u>4,838,650</u>



# Financial Statements

For the Year Ended June 30, 2021

Utah Board of Higher Education  
Office of the Commissioner  
of Higher Education

## Office of the Commissioner of Higher Education UTAH BOARD OF HIGHER EDUCATION STATEMENT OF CASH FLOWS

As of June 30, 2021

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Government Grants	(109,523)	32,784
Payments for Employee Services and Benefits	(6,238,539)	(4,270,628)
Payments to Suppliers	(1,660,826)	(2,319,671)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(8,008,888)</u>	<u>(6,557,515)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Government Appropriations - State	12,292,351	4,496,417
Pass-Through Revenue	321,304	5,460,007
Pass-Through Expense	(320,669)	(5,460,238)
Other Nonoperating Revenue (Expense)	29,488	(137,514)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<u>12,322,475</u>	<u>4,358,673</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Receipt of Interest/Dividends from Investments	<u>28,410</u>	-
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>28,410</u>	-
<b>Net Increase (Decrease) in Cash</b>	4,341,997	(2,198,843)
<b>Cash &amp; Cash Equivalents--Beginning of Year</b>	<u>5,934,286</u>	<u>8,133,128</u>
<b>Cash &amp; Cash Equivalents--End of Year</b>	<u>10,276,283</u>	<u>5,934,286</u>



# Financial Statements

For the Year Ended June 30, 2021

Utah Board of Higher Education  
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## Office of the Commissioner of Higher Education UTAH BOARD OF HIGHER EDUCATION STATEMENT OF CASH FLOWS

As of June 30, 2021  
(continued)

	<u>2021</u>	<u>2020</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>		
<b>Operating Income (Loss)</b>	(7,758,485)	(6,758,656)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Changes in Assets and Liabilities:		
Accounts Payable	(164,925)	531,361
Compensated Absences	(85,478)	(330,219)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(8,008,887)</u>	<u>(6,557,515)</u>

### Noncash Investing, Noncapital Financing, and Capital Financing Transactions

None

### Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets

Cash and Cash Equivalents Classified as Current Assets	2,445,896	5,934,286
Cash and Cash Equivalents Classified as Noncurrent Assets	-	-
<b>Total Cash and Cash Equivalents</b>	<u>2,445,896</u>	<u>5,934,286</u>





# Notes to the Financial Statements

For the Year Ended June 30, 2021

Utah Board of Higher Education  
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## Note A. Summary of Significant Accounting Policies

The significant accounting policies followed by the Office of the Commissioner of Higher Education (OCHE) are described below

### Reporting Entity

OCHE is a component unit of the State of Utah as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity. The financial activity of OCHE is included in the State's Comprehensive Annual Financial Report (CAFR) as a non-major discrete component unit. In FY21, changes were made in GASB no. 84 that require the University of Utah to report all fiduciary-type activities on its own fiduciary fund statements. Because of this change, OCHE is included in the yearly audit of the University. OCHE's financial statements include the accounts of OCHE and other restricted and unrestricted funds managed by the Office of the Commissioner.

### Basis of Accounting

Under the provisions of the GASB standards, OCHE is considered a special-purpose government engaged in business-type activities (BTA). Accordingly, OCHE's financial statements have been presented utilizing 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 interagency transactions have been eliminated. BTA reporting requires OCHE to present only the basic financial statements. This includes a Management's Discussion and Analysis, a Statement of Net Assets or Balance Sheet, a Statement of Revenues, Expenses, and Changes in Net Assets, a Statement of Cash Flows, and notes to the financial statements. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting.

In accordance with GASB Statement No. 20, OCHE is required to follow all applicable GASB pronouncements. In addition, OCHE should apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. OCHE has elected to not apply FASB pronouncements issued after November 30, 1989.



# Notes to the Financial Statements

For the Year Ended June 30, 2021

Utah Board of Higher Education  
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## Cash Equivalents

OCHE considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

## Investments

OCHE manages its funds in the University of Utah accounting system and a PTIF account with the Utah State Treasurer's Office. The bi-monthly state appropriations are deposited in the PTIF account and are subsequently transferred to the University of Utah to cover expenses. This allows unused funds to earn interest in the PTIF account until they are needed.

The University of Utah pools its investments, including cash, to maximize return and minimize administrative costs. The cash balances and cash float at the University of Utah 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 of Utah that the investments ordinarily be held to maturity at which time the par value of the investments will be realized. The Utah State Treasurer's Office operates the Utah Public Treasurer's Investment Fund (PTIF) which is managed in accordance with the State Money Management Act. The State Money Management Council provides regulatory oversight for the PTIF. The PTIF is available for investment of funds administered by any Utah public treasurer.

## Capital Assets

OCHE capitalizes all equipment with a unit cost of \$5,000 or more and an estimated useful life greater than one year. All equipment is stated at cost when purchased or constructed, or fair value at the date of donation in the case of gifts. OCHE computes depreciation using the straight-line composite method over the estimated useful life of the assets.

## Compensated Absences

Employee vacation pay at OCHE is accrued at year-end for financial statement purposes. The liabilities and expenses incurred are recorded at year-end as a component of compensated absences in the Statement of Net Assets, and as a component of salaries and benefits expense in the Statement of Revenues, Expenses, and Changes in Net Assets. During FY21 OCHE saw a reduction of \$40,443. This was due to vacation hours that were missed being paid out when OCHE switched HR services to the



# Notes to the Financial Statements

For the Year Ended June 30, 2021

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University of Utah in the last FY. Sick leave is not accrued but is reported in the period of actual expenditure.

## Net Assets

OCHE's net assets are classified as follows:

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

*Unrestricted:* Unrestricted net assets represent resources derived from state appropriations and services of educational activities. These resources are used for transactions relating to the education and general operations of OCHE and may be used at the discretion of the governing board to meet current expenses for any legal purpose.

When both restricted and unrestricted resources are available for use, it is OCHE's policy to use restricted resources first, then unrestricted resources as they are needed.

## Classification of Revenues

OCHE has classified its revenues as either operating or non-operating revenues according to the following criteria:

*Operating Revenues:* Operating revenues include activities that have the characteristics of exchange transactions, such as most federal, state, and local grants and contracts.

*Non-operating Revenues:* Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as: gifts and contributions; state appropriations; some federal, state, and local grants and contracts; and investment income.

## Disclosures

The basic financial statements include certain prior year summarized comparative information but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Certain reclassifications have been made to the prior year comparative information in conformity with the current year presentation. Accordingly, such information should be read in conjunction with OCHE's financial statements for which the summarized information was derived.



# Notes to the Financial Statements

For the Year Ended June 30, 2021

Utah Board of Higher Education  
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## Note B. Cash and Cash Equivalents, Short-term Investments, and Investments

Cash and cash equivalents (instruments purchased with an original maturity of 3 months or less), short-term investments and investments (instruments having an original maturity greater than 3 months and equity type investments) are recorded at fair value.

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

OCHE follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of OCHE funds in a qualified depository through the University of Utah where all funds OCHE has governance over are deposited. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

## Note C. Pass-Through Funds

Four sets of funds passed-through OCHE during the year ending June 30, 2021, these include:

- Concurrent Enrollment (\$5,450,971)
- National Association of College and University Attorneys (\$15,445)
- Ray Quinney & Nebeker (\$142,473.50)
- HUB (\$162,750.00)



# Notes to the Financial Statements

For the Year Ended June 30, 2021

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## Note D. Merger with Technical Schools

As of July 1, 2020, the eight technical colleges merged with the other institutions in the system. Due to this change, the system now has eight degree granting and eight technical colleges. As part of this change, OCHE brought on additional staff that worked to support the technical colleges prior to the merger. This has driven up the employee related cost from Fiscal Year 2020 to Fiscal Year 2021.

## Note E. Retirement Plans

As required by State law, eligible nonexempt employees (as defined by the U.S. Fair Labor Standards Act) of OCHE who choose to adopt the University of Utah's payroll plan (an option given at inception of employment with OCHE to employees coming in from USHE institutions to retain their benefits from their previous employer in place of those provided by the University of Utah), are covered by either the Utah State Contributory or Noncontributory or the Public Safety Noncontributory Retirement Systems and eligible exempt employees (as defined by the U.S. Fair Labor Standards Act) are covered by defined contribution programs (TIAA-CREF and Fidelity).

The University of Utah contributes to the Utah State and School Contributory and Noncontributory Retirement System (Systems) that are multi-employer, cost sharing, defined benefit pension plans. The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by respective sections of Chapter 49 of the Utah Code Annotated, 1953, as amended. The Utah State Retirement Office Act provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. A copy of the report may be obtained by writing the Utah Retirements Systems.

Plan members in the State and School Contributory Retirement System are required to contribute 6.00% of their annual covered salaries, all of which is paid by OCHE, and OCHE is required to contribute 17.7% of their annual salaries. In the State and School Noncontributory Retirement System, there is a two tier system. OCHE is required to contribute 23.70% of plan members' annual salaries for tier one, and 20.05% for tier two. The contribution requirements of the Systems are authorized by statute and specified by the Board and the contribution rates are actuarially determined.



# Notes to the Financial Statements

For the Year Ended June 30, 2021

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The defined contribution programs provide individual retirement fund contracts with each participating employee. Benefits provided to retired employees are based on the value of the individual contracts and the estimated life expectancy of the employee at retirement. Contributions by OCHE to the employee's contract 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. For the year ended June 30, 2021, OCHE's contribution to this defined contribution pension plan was 14.20% of the employees' annual salaries. Additional contributions are made by OCHE based on employee contracts. OCHE has no further liability once contributions are made.

Employees who opted to stay with payroll and benefit plans from other institutions within the Utah System of Higher Education have a similar structure to that outlined by the University of Utah and adhere to the State laws governing employee retirement.

For the years ended June 30, 2021, 2020 and 2019, OCHE's total contributions to the Systems were equal to the amounts, as shown in Figure 1.

Figure 1.	<u>2021</u>	<u>2020</u>	<u>2019</u>
State & School Retirement Systems	\$ 94,340.32	\$ 73,071.47	\$ 68,704.26
TIAA-CREF/Fidelity	\$ 536,879.52	\$ 473,765.87	\$ 420,530.69
<b>TOTAL CONTRIBUTIONS</b>	<b>\$ 631,219.84</b>	<b>\$ 546,837.34</b>	<b>\$ 489,234.95</b>

## Note F. Insurance Coverage

OCHE maintains insurance coverage for commercial general liability, automobile, errors and omissions, and property (building and equipment) through policies administered by the Utah State Risk Management Fund. Employees of OCHE and authorized volunteers are covered by workers' compensation and employees' liability through Workers' Compensation Fund of Utah.