New Issue

Ratings: Moody's "Aa1"; Standard & Poor's "AA+"
See "MISCELLANEOUS—Bond Ratings" herein.

Subject to compliance with certain covenants by the Authority and the State, in the opinion of Chapman and Cutler LLP, Bond Counsel, under present law, interest on the 2006A Bonds is not includible in gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In the opinion of Bond Counsel, under the existing laws of the State of Utah, as presently enacted and construed, interest on the 2006A Bonds is exempt from taxes imposed by the Utah Individual Income Tax Act. See "LEGAL MATTERS—Tax Exemption," and "—Original Issue Discount" herein for a more complete discussion.

The 2006A Bonds are not "bank qualified."

State of Utah,
State Building Ownership Authority

$8,355,000 Lease Revenue Bonds (State Facilities Master Lease Program), Series 2006A

payable from annually renewable lease payments to be made by the

State of Utah

pursuant to a State Facilities Master Lease Agreement,
as amended and supplemented (the "Lease")

The $8,355,000 Lease Revenue Bonds (State Facilities Master Lease Program), Series 2006A (the "2006A Bonds") are issued by the State Building Ownership Authority (the "Authority"), a body corporate and politic of the State of Utah (the "State"), as fully–registered bonds and will be initially issued in book–entry form through The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2006A Bonds.

Principal of and interest on the 2006A Bonds (interest payable May 15 and November 15 of each year, commencing May 15, 2006) are payable by Wells Fargo Bank, N.A., Corporate Trust Services, Salt Lake City, Utah, as Paying Agent, to the registered owners thereof, initially DTC. See "THE 2006A Bonds—Book–Entry System" herein.

The 2006A Bonds are subject to optional, mandatory sinking fund and extraordinary optional redemption (in the event of damage to, or destruction, seizure or condemnation of the Facilities, as defined herein) prior to maturity. See "THE FACILITIES—The 2006A Facilities" and "THE 2006A BONDS—Redemption Provisions For The 2006A Bonds" herein.

The 2006A Bonds are being issued to finance a portion of the cost of the acquisition of real estate, and the acquisition, construction and equipping of certain building facilities, and payment of capitalized interest and the costs associated with the issuance of the 2006A Bonds. The 2006A Bonds and certain other Bonds, as described herein, previously issued by the Authority are parts of an ongoing master lease and building program whereby all Bonds issued thereunder are equally and ratably secured and cross–collateralized by the several facilities constructed through this program (the "Facilities").

Pursuant to the Lease, the State has agreed to pay Base Rentals, as defined herein, which are sufficient to pay the principal of and interest on the 2006A Bonds and the Prior Parity Bonds, as defined herein, coming due in each year, but only if and to the extent that the Utah State Legislature annually appropriates funds sufficient to pay such Base Rentals plus such Additional Rentals, as defined herein, as are necessary to operate and maintain the Facilities. The Lease specifically provides that nothing therein shall be construed to require the State to appropriate moneys to pay the Base Rentals or Additional Rentals (collectively, the "Rentals") and the State is not obligated to pay such Rentals except to the extent appropriated. Neither the obligation of the State to pay such Rentals nor the obligation of the Authority to pay the principal of and interest on the2006A Bonds will constitute or give rise to a debt, general obligation or liability of, or a charge against the general credit or taxing power of, the State or any of its political subdivisions. The issuance of the 2006A Bonds does not directly or contingently obligate the State to pay any Rentals beyond those appropriated for the State's then current fiscal year. The Authority has no taxing power.

Dated: Date of Delivery[1]

Due: May 15, as shown on inside front cover

See the inside front cover for the maturity schedule of the 2006A Bonds.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire OFFICIAL STATEMENT to obtain information essential to the making of an informed investment decision.

This OFFICIAL STATEMENT is dated January 10, 2006, and the information contained herein speaks only as of that date.

WELLS FARGO

Wells Fargo Brokerage Services, LLC

[1] The anticipated date of delivery is Thursday, January 19, 2006.

$8,355,000 Lease Revenue Bonds
(State Facilities Master Lease Program), Series 2006A

Dated: Date of Delivery[1] **Due: May 15, as shown below**

$6,075,000 Serial Bonds

Due May 15	CUSIP 917547	Principal Amount	Interest Rate	Yield/ Price	Due May 15	CUSIP 917547	Principal Amount	Interest Rate	Yield/ Price
2008…..	RV 5	$280,000	3.50%	3.30%	2016…..	SD 4	$380,000	4.00%	3.95%
2009…..	RW 3	290,000	4.00	3.35	2017…..	SE 2	395,000	4.00	4.05
2010…..	RX 1	300,000	4.00	3.40	2018…..	SF 9	410,000	4.15	100.00
2011…..	RY 9	315,000	3.50	3.43	2019…..	SG 7	425,000	4.25	4.15
2012…..	RZ 6	325,000	3.50	100.00	2020…..	SH 5	445,000	4.25	100.00
2013…..	SA 0	335,000	4.00	3.65	2021…..	SJ 1	465,000	5.00	4.25
2014…..	SB 8	350,000	4.00	3.75	2022…..	SK 8	485,000	4.75	4.25
2015…..	SC 6	365,000	4.00	3.85	2023…..	SL 6	510,000	5.00	4.30

$2,280,000 4.25% Term Bond due May 15, 2027—Price 96.457% **(CUSIP 917547 SM 4)**

1 The anticipated date of delivery is Thursday, January 19, 2006.

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This OFFICIAL STATEMENT does not constitute an offer to sell, or the solicitation of an offer to buy, nor shall there be any sale of, the 2006A Bonds (as defined herein) by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained herein, and if given or made, such other information or representations must not be relied upon as having been authorized by any of: the State Building Ownership Authority (the "Authority"); the State of Utah (the "State"); Zions Bank Public Finance, Salt Lake City, Utah (as Financial Advisor); Wells Fargo Bank, N.A., (as Trustee, Paying Agent and Registrar); Wells Fargo Brokerage Services, LLC[1], Salt Lake City, Utah (the "Underwriter") or any other entity. All information contained herein has been obtained from the State, The Depository Trust Company, New York, New York, and from other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this OFFICIAL STATEMENT nor the issuance, sale, delivery or exchange of the 2006A Bonds, shall under any circumstance create any implication that there has been no change in the affairs of the State since the date hereof.

The 2006A Bonds have not been registered under the Securities Act of 1933, as amended, or any state securities laws in reliance upon exemptions contained in such act and laws. Neither the Securities and Exchange Commission nor any state securities commission has passed upon the accuracy or adequacy of this OFFICIAL STATEMENT. Any representation to the contrary is unlawful.

The yields at which the 2006A Bonds are offered to the public may vary from the initial reoffering yields on the inside cover page of this OFFICIAL STATEMENT. In addition, the Underwriter may allow concessions or discounts from the initial offering prices of the 2006A Bonds to dealers and others. In connection with the offering of the 2006A Bonds, the Underwriter may engage in transactions that stabilize, maintain, or otherwise affect the price of the 2006A Bonds. Such transactions may include overallotments in connection with the purchase of 2006A Bonds, the purchase of 2006A Bonds to stabilize their market price and the purchase of 2006A Bonds to cover the Underwriter's short positions. Such transactions, if commenced, may be discontinued at any time.

Cautionary Statements Regarding Forward–Looking Statements. **Certain statements included or incorporated by reference in this OFFICIAL STATEMENT constitute "forward–looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as "plan," "project," "forecast," "expect," "estimate," "budget" or other similar words.**

The achievement of certain results or other expectations contained in such forward–looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward–looking statements. The Authority and the State do not plan to issue any updates or revisions to those forward–looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur.

This OFFICIAL STATEMENT has been designed to conform, where applicable, to the guidelines presented in Disclosure Guidelines for State and Local Government Securities, published by the Government Finance Officers Association in 1991, as revised.

[1] Wells Fargo Brokerage Services, LLC ("WFBS") is a registered broker/dealer and a member of the NASD, SIPC and the Chicago Stock Exchange. WFBS is a brokerage affiliate of Wells Fargo & Company. WFBS is solely responsible for its contractual obligations and commitments. Non–deposit investment products offered by WFBS are not FDIC insured, are subject to investment risk, including loss of principal, and are not guaranteed by a bank unless otherwise specified.

From time to time, Wells Fargo Bank, N.A., and other banks and companies affiliated with WFBS, may lend money to an issuer of securities or debt underwritten or dealt in by WFBS. Within the disclosure document for any such underwriting or placement, any such material lending relationship will be disclosed, together with the extent to which the proceeds from the sale of such securities will be used to repay any outstanding indebtedness to any WFBS affiliate.

From time to time, WFBS may participate in a primary or secondary distribution of securities bought or sold by a purchaser of bonds. WFBS and its affiliates may also act as an investment advisor to issuers whose securities may be sold to a purchaser of these bonds.

OFFICIAL STATEMENT RELATED TO

State of Utah,
State Building Ownership Authority

$8,355,000 Lease Revenue Bonds
(State Facilities Master Lease Program), Series 2006A

payable from annually renewable lease payments to be made by the

State of Utah

pursuant to a State Facilities Master Lease Agreement,
as amended and supplemented (the "Lease")

INTRODUCTION

This OFFICIAL STATEMENT, including the cover page, introduction and appendices, provides information in connection with the issuance and sale by the State of Utah, State Building Ownership Authority (the "Authority"), a body politic and corporate of the State of Utah (the "State"), of its $8,355,000 Lease Revenue Bonds (State Facilities Master Lease Program), Series 2006A (the "2006A Bonds").

This introduction is only a brief description of the 2006A Bonds and the security and source of payment for the 2006A Bonds and is qualified by more complete and detailed information contained in the entire OFFICIAL STATEMENT, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire OFFICIAL STATEMENT. The offering of the 2006A Bonds to potential investors is made only by means of the entire OFFICIAL STATEMENT.

See the following Appendices attached hereto and incorporated herein by reference: "APPENDIX A—BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION OF THE STATE OF UTAH FOR FISCAL YEAR 2005;" "APPENDIX B—BASIC DOCUMENTATION;" "APPENDIX C—DEMOGRAPHIC AND ECONOMIC DATA REGARDING THE STATE OF UTAH;" "APPENDIX D—PROPOSED FORM OF OPINION OF BOND COUNSEL;" "APPENDIX E—PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING;" and "APPENDIX F—BOOK–ENTRY SYSTEM."

When used herein the terms "Fiscal Year[s] YYYY," and "Fiscal Year[s] End[ed][ing] June 30, YYYY" shall refer to the year ended or ending on June 30 of the year indicated and beginning on July 1 of the preceding year and the terms "Calendar Year[s]" or "Calendar Year[s] End[ed][ing] December 31, YYYY" shall refer to the year beginning on January 1 and ending on December 31 of the year indicated. Capitalized terms used but not otherwise defined herein have the same meaning as given to them in the hereinafter defined Lease and the Indenture. See "APPENDIX B—BASIC DOCUMENTATION–DEFINITIONS OF CERTAIN TERMS."

The Authority

The Authority was established and operates under the State Building Ownership Authority Act (the "Building Ownership Act"), Title 63B, Chapter 1, Part 3, Utah Code Annotated 1953, as amended (the

"Utah Code"). The Authority was created in 1979 for the purpose of acquiring, constructing, improving or extending one or more projects on behalf of the State and certain state bodies pursuant to the Building Ownership Act. See "STATE BUILDING OWNERSHIP AUTHORITY" below.

Authorization For And Purpose Of The 2006A Bonds; Prior Parity Bonds

The Authority may issue bonds and fund projects only as authorized by the Utah State Legislature (the "Legislature"). The 2006A Bonds are being issued pursuant to: (i) the Building Ownership Act, Title 63B, Chapter 14, Part 2 of the Utah Code (the "2005 Bonding Act"), and other applicable State law (collectively, with the Building Ownership Act and the 2005 Bonding Act, the "Act"); (ii) certain authorizing resolutions adopted by the Authority on December 7, 2005 (the "Parameters Resolution") and on January 10, 2006 (the "Final Bond Resolution" and together with the Parameters Resolution, the "Resolutions") which provide for the authorization, issuance and delivery of the 2006A Bonds; and (iii) an Indenture of Trust, Assignment of State Facilities Master Lease Agreement and Security Agreement dated as of September 1, 1994, as amended and supplemented (collectively, the "Indenture"), between the Authority and Wells Fargo Bank, N.A., Corporate Trust Services, Salt Lake City, Utah, as Trustee (the "Trustee").

The 2006A Bonds are being issued to finance the acquisition of real estate, and the acquisition, construction and equipping of certain building facilities (as defined herein), payment of capitalized interest and payment of the costs associated with the issuance of the 2006A Bonds. See "THE 2006A BONDS—Estimated Sources And Uses Of Funds" and "THE FACILITIES—The 2006A Facilities" below.

The Authority has 13 series of Bonds outstanding under the Indenture (collectively, the "Prior Parity Bonds") to finance and refinance the cost of various projects, which projects may include a variety of personal property (collectively, the "Facilities" or "Leased Property") under the Building Ownership Act.

As of January 19, 2006 (the anticipated closing date of the 2006A Bonds), the outstanding aggregate principal amount of the Prior Parity Bonds will be $322,600,000 (not including the 2006A Bonds).

The 2006A Bonds will be issued on a parity basis, and will be equally and ratably secured under the Indenture with (i) the Prior Parity Bonds, and (ii) any Additional Bonds which may be issued from time to time under the Indenture. *The 2006A Bonds, the Prior Parity Bonds, and any Additional Bonds issued under the Indenture are sometimes collectively referred to herein as the "Bonds."* See "THE 2006A BONDS—Security And Sources Of Payment For The 2006A Bonds–Additional Bonds; Refunding Bonds" and "APPENDIX B—BASIC DOCUMENTATION–THE INDENTURE–Additional Bonds."

The Authority has leased all of the Facilities to the State, acting through its Division of Facilities Construction and Management ("DFCM"), a division of its Department of Administrative Services, pursuant to a State Facilities Master Lease Agreement, dated as of September 1, 1994, as amended and supplemented (collectively, the "Lease").

Pursuant to certain mortgages, the Authority has granted to the Trustee mortgages and security interests in each of the Facilities as security for the Bonds. See "THE 2006A BONDS—Security And Sources Of Payment For The 2006A Bonds" below.

Security; Cross Collateralization

Security for the 2006A Bonds

The 2006A Bonds are limited obligations of the Authority, payable solely from the revenues and other amounts received pursuant to the Lease and other funds or amounts held by the Trustee under the Indenture as security for the 2006A Bonds. See "THE 2006A BONDS—Security And Sources Of Payment For The 2006A Bonds" below.

Under the Lease, the State has agreed to make payments in stated amounts which are sufficient to pay interest on the 2006A Bonds and the principal amount thereof coming due in each year (collectively, the "Base Rentals"), but only if and to the extent that the Legislature annually appropriates funds sufficient to pay the Base Rentals coming due during each succeeding Renewal Term (as described herein) of the Lease plus such additional amounts (the "Additional Rentals") as are necessary to operate and maintain the Facilities during such period. The Lease specifically provides that nothing therein shall be construed to require the Legislature to appropriate any money to pay any Base Rentals or Additional Rentals (collectively, the "Rentals") thereunder and that neither the State nor any political subdivision thereof is obligated to pay such Rentals except to the extent of funds appropriated for that purpose. Neither the obligation of the State to pay Rentals nor the obligation of the Authority to pay the principal of and interest on the 2006A Bonds will constitute or give rise to a debt, a general obligation or liability of, or a charge against the general credit or taxing power of, the State or any of its political subdivisions. The issuance of the 2006A Bonds does not directly or contingently obligate the State to pay any Rentals beyond those appropriated for the State's then current fiscal year. The Authority has no taxing power. See in this section "Risks Inherent In The Ownership Of The 2006A Bonds" below and "THE 2006A BONDS—Security And Sources Of Payment For The 2006A Bonds" below.

Cross Collateralization

Pursuant to the Indenture, the Authority has mortgaged, pledged and assigned to the Trustee, among other things, its right, title and interest in and to all of the Facilities (except any exempted property) and its right to receive the Base Rentals (as defined below) as lessor under the Lease, as security for the payment of the principal of, premium, if any, and interest on the 2006A Bonds (collectively, the "Mortgages"). The mortgages and security interests created by the Mortgages secure all Bonds issued and outstanding under the Indenture on a parity basis, see "THE FACILITIES—Cross–Collateralization" below, subject to the release of any of the Facilities upon the terms and conditions described under "THE FACILITIES—Release Of Portions Of Facilities" below.

Redemption Provisions

The 2006A Bonds are subject to optional, mandatory sinking fund and extraordinary optional redemption (in the event of damage to, or destruction, seizure or condemnation of the Facilities, as defined herein) prior to maturity. See "THE FACILITIES" and "THE 2006A BONDS—Redemption Provisions For The 2006A Bonds" below.

Registration, Denominations, Manner Of Payment Of The 2006A Bonds

The 2006A Bonds are issuable only as fully–registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2006A Bonds. Purchases of 2006A Bonds will be made in book–entry form, in the principal amount of $5,000 or any whole multiple thereof not exceeding the amount of each maturity, through brokers and dealers who are, or who act through, Direct Participants. Beneficial Owners of the 2006A Bonds will not be entitled to receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the 2006A Bonds. "Direct Participants," "Indirect Participants" and "Beneficial Owners" are defined in "APPENDIX F—BOOK–ENTRY SYSTEM."

Principal of and interest on the 2006A Bonds (interest payable May 15 and November 15 of each year, commencing May 15, 2006) are payable by Wells Fargo Bank, N.A., Salt Lake City, Utah, as Paying Agent (the "Paying Agent") and Registrar (the "Registrar"), to the registered owners of the 2006A Bonds. So long as Cede & Co. is the sole registered owner, as nominee of DTC, it is required in turn to remit such principal and interest to its Direct Participants, for subsequent disbursements to the Beneficial Owners of the 2006A Bonds, as described under "APPENDIX F—BOOK–ENTRY SYSTEM."

So long as DTC or its nominee is the sole registered owner of the 2006A Bonds, none of the Authority, the State, the Underwriter or the Trustee will have any responsibility or obligation to any Direct or Indirect Participants of DTC, or the Persons for whom they act as nominees, with respect to payments to or provision of notice for the Direct Participants, Indirect Participants or the Beneficial Owners of the 2006A Bonds. *Under these same circumstances, references herein and in the Indenture to the "Bondowners" or "Registered Owners" of the 2006A Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the 2006A Bonds.*

Transfer Or Exchange Of The 2006A Bonds

No transfer or exchange of any 2006A Bonds shall be required to be made (i) during a period beginning on the Regular Record Date or the Special Record Date, as the case may be, immediately preceding any Bond Interest Payment Date and ending on such Bond Interest Payment Date or special interest payment date, (ii) during a period beginning at the opening of business 15 days before the date of the mailing of a notice of redemption of the 2006A Bonds selected for redemption and ending at the close of business on the day of such mailing, and (iii) for any 2006A Bond so selected for redemption, in whole or in part, except the unredeemed portion of such 2006A Bond being redeemed in part. Regular Record Date shall mean the first day of the month in which such Bond Interest Payment Date occurs.

Tax–Exempt Status For The 2006A Bonds

Subject to compliance with certain covenants by the Authority and the State, in the opinion of Chapman and Cutler LLP, Bond Counsel ("Bond Counsel"), under present law, interest on the 2006A Bonds is not includible in gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In the opinion of Bond Counsel, under the existing laws of the State, as presently enacted and construed, interest on the 2006A Bonds is exempt from taxes imposed by the Utah Individual Income Tax Act. See "LEGAL MATTERS—Tax Exemption," and "—Original Issue Discount" herein for a more complete discussion.

Professional Services

As of the date of this OFFICIAL STATEMENT, the following have served the State in the capacity indicated in connection with the issuance of the 2006A Bonds:

Independent Auditors

Utah State Auditor
Utah State Capitol Complex
East Office Bldg Ste E310
(PO Box 142310)
Salt Lake City UT 84114–2310
801.538.1025—Fax 801.538.1383
austonjohnson@utah.gov

Bond Counsel

Chapman and Cutler LLP
201 S Main St Ste 2000
Salt Lake City UT 84111–2266
801.536.1401—Fax 801.533.9595
scott@chapman.com

Trustee, Registrar and Paying Agent

Wells Fargo Bank, N.A.
Corporate Trust Services
299 S Main St 12th Fl
Salt Lake City UT 84111
801.246.5930—Fax 801.246.5996
laurel.r.bailey@wellsfargo.com

Financial Advisor

Zions Bank Public Finance
60 E S Temple Ste 1325
Salt Lake City UT 84111–1027
801.844.7373—Fax 801.844.4484
epehrson@zionsbank.com

Conditions Of Delivery, Anticipated Date, Manner, And Place Of Delivery For The 2006A Bonds

The 2006A Bonds are offered, subject to prior sale, when, as and if issued and received by the Underwriter, subject to the approval of legality by Chapman and Cutler LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the State by its Attorney General. Certain legal matters will be passed on for the Underwriter by Snell & Wilmer L.L.P., Salt Lake City, Utah. It is expected that the 2006A Bonds, in book–entry form, will be available for delivery in Salt Lake City, Utah, for deposit with DTC or its Agent on Thursday, January 19, 2006.

Risks Inherent In The Ownership Of The 2006A Bonds

The purchase of the 2006A Bonds involves certain investment risks which are discussed throughout this OFFICIAL STATEMENT. Accordingly, each prospective purchaser of the 2006A Bonds should make an independent evaluation of all of the information presented in this OFFICIAL STATEMENT in order to make an informed investment decision. Certain of these risks are described below.

Limited Obligations

The 2006A Bonds are payable from amounts due under the Lease on a parity basis with all other Bonds that may be outstanding under the Indenture. The State's obligation under the Lease does not constitute a general obligation or other indebtedness of the State, the Authority or any agency or political subdivision of the State within the meaning of any constitutional or statutory debt limitation. The Authority has no taxing power.

The initial term of the Lease expired on June 30, 1995 (the "Initial Term"). The State has the option to extend the term of the Lease for consecutive one–year renewal terms, which it has done since 1995 and through June 30, 2006. Unless sooner terminated, this annual renewal option will continue through June 30, 2026 with a final renewal term commencing July 1, 2026, and ending May 16, 2027 (each renewal term, and all of the existing renewals are referred to herein as the "Renewal Terms").

There is no assurance that the State, in its sole discretion, will exercise its option to extend the term of the Lease for any future Renewal Term. Accordingly, the likelihood that the State will extend the term of the Lease for any Renewal Term and that there will be sufficient funds to pay the principal of, premium, if any, and interest on the 2006A Bonds as the same become due depends upon a number of factors, including, but not limited to:

(a) the economic and demographic conditions within the State,

(b) the ability of the State to generate sufficient tax or other revenues in any year,

(c) the willingness of the Legislature in any future year to appropriate moneys to pay the Rentals, which decision of the Legislature could be affected by many factors, including the continuing need of the State for the Facilities, and

(d) the value of the Facilities if relet or sold in a foreclosure or other liquidation proceeding instituted by the Trustee in the event of the termination or expiration of the Lease if the Legislature does not appropriate sufficient funds to extend the term of the Lease as provided therein.

General Economic Conditions

The State relies on tax revenues and fees as the primary source of funds to operate state government and to pay its obligations. Regional and national economic conditions, such as weather–related economic effects, business cycles, unemployment, and consumer confidence, are outside of the control of the Authority and the State, and can have material adverse effects on the State's revenues, and its ability to pay

Base Rentals on the 2006A Facilities. See "FINANCIAL INFORMATION REGARDING THE STATE OF UTAH—Current Economic Overview" "—Recent Developments" "—Future Considerations" and "—Management's Discussion And Analysis Of Financial Statements" below.

No Reserve Fund for the 2006A Bonds or any other Bonds

No debt service reserve fund has been established to secure any of the Bonds issued under the Indenture, including the 2006A Bonds.

Expiration or Termination of the Lease

In the event that the Legislature does not renew the term of the Lease in any year by appropriating sufficient funds to pay Rentals due thereunder for the succeeding fiscal year, the State's obligation to pay Rentals under the Lease will terminate on the June 30 occurring at the end of the then–current Renewal Term. Upon (a) the expiration of any Renewal Term of the Lease during which an Event of Nonappropriation occurs or (b) an Event of Default under the Lease and an election by the Trustee to terminate the possessory interest of the State under the Lease, the State's right of possession of the Facilities under the Lease will expire or be terminated, as appropriate.

A Bondowner should not anticipate that it will be possible to foreclose on the Leased Property and liquidate, relet or sell the Leased Property (subject to the Site Leases) after the occurrence of an Event of Nonappropriation or an Event of Default for an amount equal to the aggregate principal amount of the Bonds then Outstanding plus accrued interest thereon.

Certain of the Facilities financed under the Indenture will be, or are now under construction. If the possessory interest of the State under the Lease were to be terminated by reason of an Event of Nonappropriation or an Event of Default under the Indenture or otherwise pursuant to the Building Ownership Act or the Lease prior to the acquisition and construction of these Facilities, the payment of principal of, premium, if any, and interest on the 2006A Bonds would depend, in part, on the ability of the Trustee to complete any unfinished construction, foreclose on the Facilities, and liquidate, relet or sell one or more partially constructed Facilities. See "APPENDIX B—BASIC DOCUMENTATION–THE INDENTURE–Events Of Default And Remedies."

Possible Difficulties in Selling or Re–letting the Facilities

In the event that the State's right of possession of the Facilities under the Lease expires or is terminated for any of the reasons described in the Indenture, the obligation of the State to pay Rentals under the Lease will continue through the then–current Renewal Term, but not thereafter, and the 2006A Bonds will be payable from, among other sources, such moneys as may be available by way of recovery from the State of the Rentals which are due through the then–current Renewal Term. As set forth in the Building Ownership Act, the Indenture and the Lease, if the State fails to pay any Rentals due to the Authority under the terms of the Lease, the State shall immediately surrender**,** quit and vacate the Facilities, and the rental or lease obligation under the Lease shall then cease. Should the Lease expire at the end of a Renewal Term without any extension for the next succeeding Renewal Term, or if an event occurs pursuant to which the Trustee terminates the State's right of possession of the Facilities under the Lease, the Trustee may repossess, complete construction, and relet or sell the affected Facilities as provided in the Indenture.

No assurance can be given that the Trustee could relet or sell the Facilities for the amount necessary to pay the principal of and the interest due on the 2006A Bonds. The Facilities constitute facilities to be used in connection with the operation of certain divisions of State government and institutions of higher education and may not be readily usable by other types of tenants. See "THE FACILITIES" below. The net proceeds of any reletting or sale of the Facilities, together with certain other moneys then held by the Trustee under the Indenture, if any, are required to be used to pay the 2006A Bonds to the extent of such moneys. No assurance can be given as to the amount of funds available from any such source for the payment of the aggregate principal amount of the 2006A Bonds then outstanding plus accrued interest thereon. Furthermore, no assurance can be given that any amount realized upon any liquidation of the Facilities will be available to provide for the payment of the 2006A Bonds on a timely basis.

Delays in Exercising Remedies; Limitations on Enforceability

The enforceability of the Lease and the Indenture is subject to applicable bankruptcy laws, equitable principles affecting the enforcement of creditors' rights generally and liens securing such rights, the police powers of the State, the exercise of judicial authority by state or federal courts and the exercise by the United States of America of the powers delegated to it by the federal constitution. Because of the unique uses to which the Facilities may be suited and the delays inherent in obtaining foreclosure upon real property and judicial remedies, no assurance can be given that these remedies could be accomplished rapidly. Any delays in or failure on the part of the Trustee to obtain possession of or to foreclose the lien on the Facilities, if necessary, will likely result in delays in any payment of principal of or interest on the 2006A Bonds.

Possible Shortfall in Costs of Acquisition and Construction of the Facilities

The design, acquisition, construction and equipping of certain of the Facilities being financed with the Prior Parity Bonds has been commenced and is expected to be completed at various times within the next several years. In the interim, the Authority has capitalized interest on the Prior Parity Bonds, and will capitalize interest on the 2006A Bonds, to the expected completion date of the Facilities financed with the proceeds of such bonds. Regardless of the sufficiency of the capitalized interest, however, once the capitalized interest has been fully applied, the State is required to commence lease payments pursuant to the Lease to the extent, in the amounts and at the times necessary to pay debt service on the Bonds. See "THE FACILITIES—The Facilities As Security For The 2006A Bonds," "—The 2006A Facilities" and "—The Facilities Financed With Prior Parity Bonds."

The Authority and the State believe, but there can be no assurance, that the proceeds of sale of the 2006A Bonds and the Prior Parity Bonds, together with certain investment earnings thereon and other sources of construction funds described in "THE FACILITIES—The Facilities Financed With Prior Parity Bonds" below, will be sufficient to complete the acquisition, construction and equipping of the Facilities which are yet to be completed. In the event such proceeds are insufficient, the Authority is authorized, pursuant to the Lease, to complete the acquisition, construction and equipping of those certain Facilities from legally available funds, but only in connection with the issuance of Additional Bonds (as defined hereinbelow) issued pursuant to the Indenture or from moneys otherwise legally available for that purpose. The Indenture provides that Additional Bonds may be issued for the purpose of completing the Facilities or making additions or improvements to the Facilities or acquiring or constructing Additional Facilities (as that term is defined in the Lease), subject to satisfaction of certain conditions provided in the Indenture. There can be no assurance that such Additional Bonds will be permitted under applicable law or that the Legislature will agree to the issuance of Additional Bonds at that time. If issued, Additional Bonds will be secured under the Indenture on a parity with the Bonds previously issued, including the 2006A Bonds and the Prior Parity Bonds. See "THE 2006A BONDS—Security And Sources Of Payment For The 2006A Bonds—Additional Bonds; Refunding Bonds" below and "APPENDIX B—BASIC DOCUMENTATION–THE INDENTURE–The 2006A Bonds–Additional Bonds."

Destruction of the Facilities

The Lease requires the Facilities to be insured by policies of insurance (including casualty and property damage insurance) as described in "APPENDIX B—BASIC DOCUMENTATION–THE LEASE–Insurance Provisions." In the event of damage to or destruction of all or any part of the Facilities, the State is nevertheless required to continue to make payments under the Lease during the period for which the Legislature has appropriated moneys to do so. In such event, the State will decide whether the proceeds from available insurance (and any other legally available source) are sufficient to repair and rebuild such Facilities or whether to apply the available proceeds to redemption or payment of the applicable Series of Bonds. If the net proceeds from insurance or certain other sources are insufficient to repair or replace such Facilities, the State may terminate its obligations under the Lease with respect to such Facilities and cause such proceeds to be distributed for the redemption of the applicable Series of Bonds in whole or in part as provided in the Indenture. See “THE 2006A BONDS—Redemption Provisions For The 2006A Bonds–Extraordinary Optional Redemption in the Event of Damage, Destruction or Condemnation” below. There can be no assurance as to the adequacy of a timely payment under property damage insurance in effect at that time. Furthermore, there can be no assurance that such insurance proceeds will be sufficient to redeem the applicable Series of Bonds in whole or that the Trustee will be able to realize any additional funds from such Facilities at that time. See “APPENDIX B—BASIC DOCUMENTATION–THE LEASE–Damage Or Destruction; Condemnation.”

Depreciation and Lack of Residual Value

Certain components of the Facilities may depreciate in value during the time that the 2006A Bonds are outstanding. In addition, various components of the Facilities may be difficult or impossible to remove from their points of service or use. Consequently, following an Event of Nonappropriation, an Event of Default under the Lease or the termination of the Lease for any reason, it is possible that any revenues realized by the Trustee from a reletting or sale, as appropriate, of the Authority’s interest in the Facilities may be insufficient to pay all outstanding Bonds in full.

Tax–Exempt Status; Continuing Compliance with Certain Covenants

Failure by the Authority or the State and other applicable departments and divisions of the State with respect to any of the 2006A Bonds to comply with certain covenants relating to the Indenture, the Lease and the 2006A Bonds, on a continuing basis, so long as any of the 2006A Bonds are outstanding under the Indenture and thereafter as required by such document provisions and applicable law, could result in interest on the 2006A Bonds becoming includible in federal gross income of the owners thereof, retroactive to the date of their original issuance. See “LEGAL MATTERS—Tax Exemption” below. The Indenture and the 2006A Bonds do not provide for payment of any additional interest or penalty or redemption in the event that interest on the 2006A Bonds becomes includible in federal gross income.

Other Factors Regarding the Facilities

The ownership or operation of the Facilities creates a potential for environmental liability on the part of both the owner or operator of the Facilities as well as any party secured by mortgages, deeds of trust or other encumbrances, such as the Mortgages. If hazardous substances are discovered at the Facilities’ sites or discovered to be emanating from the Facilities’ sites, the State and the Authority may be held strictly liable for all costs and liabilities relating to the disposing of or dealing with such hazardous substances. This liability could be for an amount far in excess of the value of the Facilities. The existence of such hazardous substances could hinder the Trustee in exercising certain of its remedies or rights under the Lease and the Indenture upon the occurrence of an Event of Default thereunder.

The Authority has agreed and represented in the Lease that it has carried on, and will carry on, the business and operations at the Facilities in a manner that complies in all respects, and will remain in compliance, with all applicable federal, state, regional, county or local laws, statutes, rules, regulations or ordinances concerning public health, safety or the environment.

Changes in State Government

The State has agreed in the Lease to (a) include in its annual budget request all moneys that are necessary to fulfill the State’s obligations under the Lease for each successive Renewal Term and (b) seek an appropriation of such funds in a timely fashion so as to allow the State to pay its obligations under the

Lease when due. The decision to renew or not to renew the term of the Lease is to be made solely by the Legislature at the time it considers for adoption the final budget relating to each Renewal Term and not by any official of the State, acting in his or her individual capacity.

The obligation of the State to make payments under the Lease is subject to annual appropriation by the Legislature, which consists of the Utah Senate (the "Senate") and the Utah House of Representatives (the "House"), based upon a budget initially presented to the Legislature by the Governor of the State (the "Governor"), and which appropriation bill is signed by the Governor. The members of the Legislature and the Governor are elected officials. Members of the Senate and the Governor serve four–year terms while members of the House serve two–year terms. As of the date of this OFFICIAL STATEMENT, the Governor and his administration support the construction and continued operation of the Facilities. However, the individuals elected to serve as Governor and as members of the Legislature will change during the period when the 2006A Bonds are outstanding. There can be no assurance that a future Legislature or a future Governor will not take a policy position against the continued appropriation of payments under the Lease for the Facilities.

Continuing Disclosure

The State will enter into a Continuing Disclosure Undertaking (the "Undertaking") for the benefit of the Owners of the 2006A Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of paragraph (b)(5) of Rule 15c2–12 (the "Rule") promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and other terms of the Undertaking, including termination, amendment and remedies, are set forth in the proposed form of Undertaking in "APPENDIX E—PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING."

The State is in compliance with each and every undertaking previously entered into by it pursuant to the Rule. A failure by the State to comply with the Undertaking will not constitute a default under the Indenture and Owners of the 2006A Bonds are limited to the remedies provided in the Undertaking. See "APPENDIX E—PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING." A failure by the State to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 2006A Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the 2006A Bonds and their market price.

Basic Documentation

This OFFICIAL STATEMENT speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the Authority, the State, the 2006A Bonds, the Indenture and the Lease are included in this OFFICIAL STATEMENT. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture and the Lease are qualified in their entirety by reference to such documents, and references herein to the 2006A Bonds are qualified in their entirety by reference to the forms thereof included in the Indenture, the Lease and the information with respect thereto included in the aforementioned documents, copies of which are available for inspection at the principal office of the Trustee on or after the delivery of the 2006A Bonds. Descriptions of the Indenture, the Lease and the 2006A Bonds are qualified by reference to bankruptcy laws affecting the remedies for the enforcement of the rights and security provided therein and the effect of the exercise of the police power by any entity having jurisdiction. See "APPENDIX B—BASIC DOCUMENTATION." The "basic documentation" which includes the Resolutions, the closing documents for the 2006A Bonds, the Indenture, the Lease and other documentation, authorizing the issuance of the 2006A Bonds and establishing the rights and responsibilities of the Authority, the State and other parties to the transaction, may be obtained from the "contact persons" as indicated below.

Contact Persons

As of the date of this OFFICIAL STATEMENT, the chief contact person for the Authority and DFCM concerning the 2006A Bonds is:

Alyn C. Lunceford, Real Property and Debt Manager
alunceford@utah.gov

DFCM
4110 State Office Building
Salt Lake City UT 84114
801.538.3799—Fax 801.538.3267

As of the date of this OFFICIAL STATEMENT, the chief contact person for the State concerning the 2006A Bonds is:

Edward T. Alter, Utah State Treasurer, and
Board Member and Secretary of the Authority
ealter@utah.gov

Utah State Treasurer
Utah State Capitol Complex
East Office Bldg Ste E315
(PO Box 142315)
Salt Lake City UT 84114–2315
801.538.1042—Fax 801.538.1465

As of the date of this OFFICIAL STATEMENT, additional requests for information may be directed to Zions Bank Public Finance, Salt Lake City, Utah (the "Financial Advisor"):

Carl F. Empey, Managing Director, cempey@zionsbank.com
Jon Bronson, Vice President, jbronson@zionsbank.com
Brian Baker, Assistant Vice President, bbaker@zionsbank.com
Eric John Pehrson, Vice President, epehrson@zionsbank.com

Zions Bank Public Finance
60 E S Temple Ste 1325
Salt Lake City UT 84111–1027
801.844.7373—Fax 801.844.4484

THE 2006A BONDS

General

The 2006A Bonds will be dated the date of delivery[1] thereof (the "Dated Date") and will mature on May 15 in the years and in the amounts as set forth on the inside cover page of this OFFICIAL STATEMENT.

The 2006A Bonds will bear interest from the Dated Date at the rates set forth on the inside cover page of this OFFICIAL STATEMENT. Interest on the 2006A Bonds is payable semiannually on each May 15 and November 15, commencing May 15, 2006. Interest on the 2006A Bonds will be computed on the ba-

[1] The anticipated date of delivery is Thursday, January 19, 2006.

sis of a 360–day year of 12, 30–day months. Wells Fargo Bank, N.A., Salt Lake City, Utah, is the initial Registrar, Paying Agent and Trustee with respect to the 2006A Bonds.

The 2006A Bonds will be issued as fully–registered bonds, initially in book–entry form, in the denomination of $5,000 or any whole multiple thereof, not exceeding the amount of each maturity.

The 2006A Bonds are being issued within the statutory debt limits imposed on the Authority. See "STATE BUILDING OWNERSHIP AUTHORITY—Legal Borrowing Debt Capacity" below.

Estimated Sources And Uses Of Funds

The proceeds from the sale of the 2006A Bonds are estimated to be applied as set forth below:

Sources of Funds:	
Par amount of the 2006A Bonds	$8,355,000.00
Original issue premium	116,704.00
Total	$8,471,704.00
Uses of Funds:	
Deposit to Construction Fund	$7,660,613.96
Deposit to Capitalized Interest Fund	506,783.52
Costs of issuance (1)	167,332.39
Original issue discount	82,581.60
Underwriter's discount	54,392.53
Total	$8,471,704.00

(1) Costs of issuance include legal fees, financial advisor fees, trustee fees, rating fees, printing, rounding amounts and other miscellaneous expenses.

Security And Sources Of Payment For The 2006A Bonds

The Lease and the Indenture

The 2006A Bonds are payable from amounts due under the Lease, as may be appropriated by the Legislature, and certain other moneys as provided in the Indenture. The Initial Term of the Lease commenced as of September 1, 1994, and expired on June 30, 1995. The State has exercised its option to extend the term of the Lease, which term will expire June 30, 2006, subject to the further exercise by the State, in its sole discretion, of its option to extend the term of the Lease for consecutive additional one–year Renewal Terms commencing July 1 of each of the years 2006 through 2025, and a final Renewal Term commencing July 1, 2026, and ending May 16, 2027, unless terminated earlier. For circumstances under which the Lease may be terminated, see "APPENDIX B—BASIC DOCUMENTATION–THE LEASE–Term Of The Lease."

The Authority, as lessor under the Lease and pursuant to the Indenture, will assign to the Trustee its rights to receive Base Rentals under the Lease for the benefit of the Owners of the 2006A Bonds. In addition, the Authority has granted or will grant a mortgage and security interest in all of its right, title and interest in and to the Facilities. See "APPENDIX B—BASIC DOCUMENTATION–THE INDENTURE."

Pursuant to the provisions of the Lease, the State may, in its sole discretion, purchase all or a portion of the Facilities by payment of the applicable Option Price as defined in the Lease. Neither DFCM, the State, nor the Legislature may be compelled to exercise the purchase option provided in the Lease. See "APPENDIX B—BASIC DOCUMENTATION–THE LEASE–Lessee's Options To Purchase The Leased Property."

The continuation of the term of the Lease and the obligation of the State to pay Base Rentals after June 30, 2006, are subject to the appropriation by the Legislature of sufficient funds to extend the term of the Lease for each succeeding Renewal Term. Neither the Lease nor the 2006A Bonds constitute a general obligation or indebtedness of the State or any political subdivision thereof, or the Authority, within the meaning of any constitutional or statutory debt limitation. Neither the State nor any agency, department or division of the State has pledged its credit to the payment of the Lease or the 2006A Bonds, and neither the State nor the Authority is directly or contingently obligated to apply money from, or to levy or pledge, any form of taxation to the payment of the Lease or the 2006A Bonds. The Authority does not have any taxing power. See "INTRODUCTION—Risks Inherent In The Ownership Of The 2006A Bonds" above.

So long as the Lease does not expire on June 30, 2006, by its terms, and thereafter in the event the Legislature appropriates sufficient funds to extend the term of the Lease for each successive Renewal Term, the State is required by the provisions of the Lease to pay semiannually to the Trustee specified Base Rentals for the Facilities which are sufficient, in both time and amount, to pay, when due, the principal of and interest on the 2006A Bonds.

The State has covenanted in the Lease to cause to be included in its annual tentative budget submitted to the Governor a request for appropriation, in accordance with applicable law, of an amount necessary (after taking into account any moneys then legally available for such purpose) to pay the Base Rentals and any reasonably anticipated Additional Rentals under the Lease for the Facilities during the next succeeding Renewal Term. See "APPENDIX B—BASIC DOCUMENTATION–THE LEASE–Rentals Payable–Covenant to Request Appropriations."

The Governor's Office of Planning and Budget reports that the budget adopted by the Legislature at its 2005 Legislative General Session included an appropriation of funds sufficient to pay Base Rentals and Additional Rentals due under the Lease during Fiscal Year 2006 (which commenced on July 1, 2005 and will end on June 30, 2006), thereby extending the term of the Lease for the current (11^{th}) Renewal Term.

If the amounts otherwise legally available to be paid by the State to the Authority under the Lease are insufficient to pay the principal of and interest on the 2006A Bonds as and when due, as provided in the Building Ownership Act, the Governor may request the Legislature to appropriate additional funds for the payment of amounts due thereunder. The State covenants to request that the Governor include in the budget submitted to the Legislature a request or requests for appropriation as and when necessary to assure full and timely payments on the 2006A Bonds; *provided, however,* that nothing in the Lease shall be construed as requiring the Governor to make such a request or the Legislature to appropriate such amounts.

In the event that the Legislature does not budget and appropriate sufficient funds prior to June 1 next preceding the beginning of any Renewal Term for the payment of (i) the Base Rentals becoming due during such Renewal Term, and (ii) reasonably estimated Additional Rentals payable during such Renewal Term with respect to the Lease, then an Event of Nonappropriation shall be deemed to have occurred pursuant to the Lease, and the State shall not be obligated to make payment of the Base Rentals or Additional Rentals provided for in the Lease beyond the last day of the Renewal Term during which such Event of Nonappropriation occurs, except for the State's obligation to pay Rentals that are payable prior to the termination of the Lease; *provided, however*, that the State shall continue to be liable for the amounts payable pursuant to the Lease during such time when the State continues to use, occupy and operate the property leased pursuant to the Lease. Once the State has elected to continue a Lease for a new Renewal Term by the Legislature budgeting and appropriating sufficient moneys to pay Base Rentals and Additional Rentals as provided in the Lease, the State shall, as of the first day of such Renewal Term, be obligated to pay such Base Rentals and Additional Rentals during such Renewal Term. *Pursuant to the provisions of the Building Ownership Act, the Indenture, and the Lease, if the State fails to pay any Rentals due to the Authority under the terms of the Lease, the State shall immediately surrender, quit and vacate the*

Facilities. The Trustee shall, upon the occurrence of an Event of Nonappropriation, have all rights and remedies to take possession of the Facilities, as trustee for the benefit of the Owners of the 2006A Bonds, as provided in the Lease and the Indenture and shall be further entitled to all moneys then on hand and being held in all funds created under the Indenture (except the Rebate Fund), less any moneys then due and owing to the Trustee for services performed as trustee thereunder. However, due to the nature of the Facilities, it is unlikely that revenues from such remedies and sources would be sufficient to pay in full all then outstanding Bonds if payment were then due by acceleration or otherwise. Should such a shortfall occur, the then outstanding Bonds would be paid on a pro rata basis as provided in the Indenture. See "INTRODUCTION—Risks Inherent In The Ownership Of The 2006A Bonds" above.

Insurance on the Facilities

The Facilities are required to be insured by the State to the extent described in "APPENDIX B—BASIC DOCUMENTATION–THE LEASE–Insurance Provisions." All Net Proceeds of performance bonds, proceeds (including any moneys derived from any self–insurance program) from policies of insurance (except the policy of public liability and property damage insurance) required by the Lease or condemnation awards which are received by the Trustee will be deposited into a separate trust fund under the Indenture. Such Net Proceeds will be used either (a) to repair, restore, modify or improve the applicable Facilities or (b) to redeem or defease the related Bonds, as more fully described in "APPENDIX B—BASIC DOCUMENTATION–THE LEASE–Damage Or Destruction; Condemnation." See "INTRODUCTION—Risks Inherent In The Ownership Of The 2006A Bonds" above and "FINANCIAL INFORMATION REGARDING THE STATE OF UTAH—Risk Management And Insurance" below.

No Reserve Fund for the 2006A Bonds

The Authority will not create or fund a debt service reserve fund for the 2006A Bonds.

Additional Bonds; Refunding Bonds

Additional Bonds may be issued pursuant to the Indenture on a parity with the 2006A Bonds and the Prior Parity Bonds upon the terms and conditions of the Indenture for the purpose of providing funds to pay one or more of the following: (i) the costs of completing the acquisition and construction of any of the Facilities financed under the Indenture; (ii) the costs of making such additions, improvements, extensions, alterations, relocations, enlargements, expansions, modifications or changes (hereinafter in this paragraph collectively called the "improvements") in, on or to the Facilities as the State may deem necessary or desirable and as will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds or reduce the fair rental value of the Facilities, including any repairing, restoring, modifying, improving or replacing pursuant to the Lease to the extent that such costs exceed the insurance or condemnation proceeds out of which such costs are to be paid pursuant to the Lease; (iii) the costs of Acquiring or Constructing any Additional Facilities for the use and benefit of the State and any State Bodies, but only to the extent that (A) the inclusion of such Additional Facilities as part of the Leased Property will not, in the opinion of Bond Counsel, adversely affect the excludability from gross income for federal income tax purposes of interest on the Bonds then outstanding and (B) the Lease is amended to include such Additional Facilities thereunder; (iv) the refunding of a Series of Bonds; (v) the costs of the issuance and sale of the Additional Bonds; (vi) interest during the estimated period of Acquisition and Construction of such Additional Facilities and for a period of up to 12 months thereafter; and (vii) any combination of such purposes. Any such Additional Facilities shall become a part of the Leased Property and shall be included under the Lease to the same extent as if originally included thereunder. All Additional Bonds will be secured by the lien of the Indenture pursuant to which such bonds are issued and will rank *pari passu* with Prior Parity Bonds issued, the 2006A Bonds and all Additional Bonds that may be issued under the Indenture, will be in such form, will bear such date or dates, bear such interest rate or rates, will have such maturity date or dates, redemption dates and redemption premiums, and will be issued at such prices as provided in the Supplemental Indenture authorizing the same and in accordance with the provisions of the Indenture.

The Authority may issue Additional Bonds to finance or refinance Additional Facilities or portions thereof pursuant to the Indenture without subjecting such Additional Facilities or portions thereof to any additional Mortgages or supplements to existing Mortgages and without providing title insurance thereon if certain conditions are met under the Indenture. See "APPENDIX B—BASIC DOCUMENTATION—THE INDENTURE–Additional Bonds."

Redemption Provisions For The 2006A Bonds

Generally. The 2006A Bonds maturing on or before May 15, 2016, are not subject to redemption prior to maturity, except that the 2006A Bonds are subject to extraordinary optional redemption in the event of damage to, or destruction or condemnation, of the Facilities.

Optional Redemption. The 2006A Bonds maturing on or after May 15, 2017, are subject to redemption (i) in whole on any business day on or after May 15, 2016, in the event that the State exercises its option pursuant to the Lease to purchase all the Leased Property (other than State–Owned Sites) or (ii) in part on May 15, 2016, or on any date thereafter from such maturities or portions thereof designated by the State in the event that the State prepays additional Base Rentals pursuant to the Lease or purchases a portion of the Leased Property representing separate Facilities pursuant to the Lease, all as provided in the Indenture. If called for redemption as described in this paragraph, the 2006A Bonds to be redeemed, in whole or in part, shall be redeemed at a redemption price, expressed as a percentage of the principal amount of the 2006A Bonds to be redeemed, equal to 100% of the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption of the 2006A Bonds. The 2006A Bonds maturing on May 15, 2027, are subject to mandatory sinking fund redemption prior to their stated maturity, in part, by lot in such manner as the Trustee shall determine to be fair and equitable, on May 15 of each year described below, at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the redemption date, but without premium, in the principal amounts as set forth below:

Mandatory Sinking Fund Redemption Date	Sinking Fund Requirements
May 15, 2024	$ 535,000
May 15, 2025	560,000
May 15, 2026	580,000
May 15, 2027 (Stated Maturity)	605,000
Total	$2,280,000

Extraordinary Optional Redemption in the Event of Damage, Destruction or Condemnation. The 2006A Bonds are subject to redemption prior to maturity in whole or in part from time to time, from such maturities or portions thereof designated by the State in its notice described below, on such date or dates as the Trustee shall determine as hereinafter described, at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the redemption date (to the extent that funds are available for such purpose as described herein), but without premium, in the event that (i) any of the Facilities are damaged or destroyed, in whole or in part, or the Leased Property or any portion thereof is taken in a condemnation or other proceeding, or certain events occur with respect to the title to such Leased Property or construction defects in any of the Facilities as described in the Lease, (ii) the Net Proceeds of any insurance policy, performance bond or condemnation award, or the Net Proceeds received as a consequence of defaults under any Project Contract (excluding liquidated damages), plus all amounts required to be paid as deductibles thereunder, made available by reason of one or more such occurrences, and any other legally available moneys, shall be insufficient to pay in full the cost of rebuilding, replacing or repairing the Leased Property and (iii) the Lessee elects, pursuant to the Lease, to waive its obligation to rebuild, repair or replace the affected portion of such Leased Property by depositing such Net Proceeds into the Redemption Fund for application to the redemption of then–Outstanding Bonds in accordance with the Lease and the Indenture and provides written notice of such election to the Trustee and the Authority. If 2006A Bonds are called for extraordinary optional redemption, the 2006A Bonds to be redeemed will be redeemed on such date or dates as the Trustee may determine to be in the best interests of the Owners of the 2006A Bonds.

On the redemption date or dates determined as provided in the preceding paragraph, the Trustee shall transfer all moneys into the Redemption Fund in accordance with the provisions of the Indenture to be used by the Trustee to redeem the 2006A Bonds on such redemption date or dates to the extent necessary after giving effect to all moneys transferred to the Redemption Fund. The Trustee shall credit automatically against the State's obligation under the Lease an amount equal to the amount in the Redemption Fund.

Notice of Redemption. Notice of the call for any redemption, identifying and stating, among other things, the 2006A Bonds or portions thereof to be redeemed, the redemption date and price, and that the interest on such Bonds will cease to accrue from and after the redemption date, shall be given by the Trustee, upon being satisfactorily indemnified as to expenses, by mail at least 30 but not more than 60 days prior to the date fixed for redemption to the registered Owner of each 2006A Bond to be redeemed in whole or in part at the address shown on the registration books; *provided, however,* that failure to give such notice by mailing, or any defect therein with respect to any 2006A Bond, shall not affect the validity of any proceedings for the redemption of any other 2006A Bond or portion thereof with respect to which no such failure has occurred. Any notice mailed as provided above shall be conclusively presumed to have been duly given, whether or not the registered Owner receives the notice.

In addition to the foregoing notice, certain further notice of any redemption of 2006A Bonds shall be given by the Trustee as provided in the Indenture. Any defect in such further notice or failure to give all or any portion of such further notice shall not in any manner defeat the effectiveness of a call for redemption.

On or prior to the date fixed for any redemption of 2006A Bonds, the moneys required for such redemption shall be deposited with the Trustee by the State in accordance with the Lease. The principal of the 2006A Bonds called for redemption shall cease to bear interest after the specified redemption date, provided that sufficient funds for redemption are on deposit with the Trustee at that time.

If at the time of mailing of any notice of redemption there shall not have been deposited with the Trustee moneys sufficient to redeem all the 2006A Bonds called for redemption, which moneys are or will be available for redemption of 2006A Bonds, such notice shall state that such redemption is subject to the deposit of the redemption moneys with the Trustee not later than the opening of business on the redemption date and that such notice shall be of no effect unless such moneys are so deposited.

Redemption Payments. All moneys to be used for redemption of 2006A Bonds (other than mandatory sinking fund redemptions, if any) shall be deposited in the Redemption Fund established under the Indenture. Said moneys shall be set aside in the Redemption Fund solely for the purpose of redeeming the principal of the 2006A Bonds in advance of their scheduled maturity date, except as may otherwise be required by any Tax Certificate (as defined in "APPENDIX B—BASIC DOCUMENTATION–DEFINITIONS OF CERTAIN TERMS"), and shall be applied on or after the Bond Payment Date or other date designated for redemption to the payment of the principal of, and premium, if any, and interest on, the 2006A Bonds to be redeemed, upon presentation and surrender of such 2006A Bonds.

Partial Redemption of 2006A Bonds. In the case of a partial redemption of 2006A Bonds when 2006A Bonds of denominations greater than $5,000 are then outstanding, then for all purposes in connection with such partial redemption, each $5,000 of face value shall be treated as though it were a separate 2006A Bond of the denomination of $5,000. If it is determined that one or more, but not all, of the $5,000 units of face value represented by any 2006A Bond is to be called for redemption, then upon notice of intention to redeem such $5,000 unit or units (given by the Trustee), the Owner of such 2006A Bond shall forthwith surrender such 2006A Bond to the Trustee (a) for payment of the redemption price (including the premium, if any, and interest to the date fixed for redemption) of the $5,000 unit or units of face value called for redemption and (b) for exchange, without charge to the Owner thereof, for a new 2006A Bond or 2006A Bonds of the same Series, designation, maturity and interest rate and in any of the authorized denominations, at the option of the Owner thereof, of the aggregate principal amount of the unpaid balance of the principal amount of the 2006A Bond to be so redeemed. If the Owner of any such 2006A Bond of a denomination greater than $5,000 shall fail to present such 2006A Bond to the Trustee for redemption and exchange as aforesaid, the principal amount of such 2006A Bond to be redeemed shall, nevertheless, become due and payable on the redemption date to the extent of the $5,000 unit or units of face value called for redemption (and to that extent only); interest shall cease to accrue on the portion of the principal amount of such 2006A Bond to be redeemed represented by such $5,000 unit or units of face value on and after the redemption date and (funds sufficient for the payment of the redemption price having been deposited with the Trustee and being available for the redemption of said unit or units on the redemption date) such 2006A Bond shall not be entitled to the benefit or security of the Indenture to the extent of the portion of its principal amount (and accrued interest thereon after the redemption date) represented by such $5,000 unit or units of face value nor shall new 2006A Bonds be thereafter issued corresponding to said unit or units. 2006A Bonds shall be redeemed only in the principal amount of $5,000 each or any whole multiple thereof.

With respect to any partial redemption of 2006A Bonds of less than all of a particular maturity of 2006A Bonds, the particular 2006A Bonds to be redeemed shall be selected by the Trustee by lot in such manner as the Trustee shall determine to be fair and equitable.

Debt Service On The 2006A Bonds

The Lease requires semi–annual Base Rental payments to be made by the State to the Authority (on May 1 and November 1 of each year), which Base Rentals have been assigned to the Trustee pursuant to the Indenture. 2006A Bond principal and/or interest payments are then paid by the Trustee on May 15 and November 15.

The following table shows scheduled debt service on the 2006A Bonds through Base Rental Payments.

Debt Service Through Base Rental Payment Schedule

Due Date (Base Rental Payment)	The 2006A Bonds Principal	Interest	Period Total	Fiscal Total
May 1, 2006	$ 0.00	$ 113,253.86	$ 113,253.86	$113,253.86
November 1, 2006	0.00	175,738.75	175,738.75	
May 1, 2007	0.00	175,738.75	175,738.75	351,477.50
November 1, 2007	0.00	175,738.75	175,738.75	
May 1, 2008	280,000.00	175,738.75	455,738.75	631,477.50
November 1, 2008	0.00	170,838.75	170,838.75	
May 1, 2009	290,000.00	170,838.75	460,838.75	631,677.50
November 1, 2009	0.00	165,038.75	165,038.75	
May 1, 2010	300,000.00	165,038.75	465,038.75	630,077.50
November 1, 2010	0.00	159,038.75	159,038.75	
May 1, 2011	315,000.00	159,038.75	474,038.75	633,077.50
November 1, 2011	0.00	153,526.25	153,526.25	
May 1, 2012	325,000.00	153,526.25	478,526.25	632,052.50
November 1, 2012	0.00	147,838.75	147,838.75	
May 1, 2013	335,000.00	147,838.75	482,838.75	630,677.50
November 1, 2013	0.00	141,138.75	141,138.75	
May 1, 2014	350,000.00	141,138.75	491,138.75	632,277.50

Debt Service On The 2006A Bonds–continued

Debt Service Through Base Rental Payment Schedule–continued

Due Date (Base Rental Payment)	The 2006A Bonds Principal	Interest	Period Total	Fiscal Total
November 1, 2014	$ 0.00	$ 134,138.75	$ 134,138.75	
May 1, 2015......................	365,000.00	134,138.75	499,138.75	$633,277.50
November 1, 2015	0.00	126,838.75	126,838.75	
May 1, 2016......................	380,000.00	126,838.75	506,838.75	633,677.50
November 1, 2016	0.00	119,238.75	119,238.75	
May 1, 2017......................	395,000.00	119,238.75	514,238.75	633,477.50
November 1, 2017	0.00	111,338.75	111,338.75	
May 1, 2018......................	410,000.00	111,338.75	521,338.75	632,677.50
November 1, 2018	0.00	102,831.25	102,831.25	
May 1, 2019......................	425,000.00	102,831.25	527,831.25	630,662.50
November 1, 2019	0.00	93,800.00	93,800.00	
May 1, 2020......................	445,000.00	93,800.00	538,800.00	632,600.00
November 1, 2020	0.00	84,343.75	84,343.75	
May 1, 2021......................	465,000.00	84,343.75	549,343.75	633,687.50
November 1, 2021	0.00	72,718.75	72,718.75	
May 1, 2022......................	485,000.00	72,718.75	557,718.75	630,437.50
November 1, 2022	0.00	61,200.00	61,200.00	
May 1, 2023......................	510,000.00	61,200.00	571,200.00	632,400.00
November 1, 2023	0.00	48,450.00	48,450.00	
May 1, 2024......................	535,000.00 (1)	48,450.00	583,450.00	631,900.00
November 1, 2024	0.00	37,081.25	37,081.25	
May 1, 2025......................	560,000.00 (1)	37,081.25	597,081.25	634,162.50
November 1, 2025	0.00	25,181.25	25,181.25	
May 1, 2026......................	580,000.00 (1)	25,181.25	605,181.25	630,362.50
November 1, 2026	0.00	12,856.25	12,856.25	
May 1, 2027......................	605,000.00 (1)	12,856.25	617,856.25	630,712.50
Totals.........................	$8,355,000.00	$4,751,083.86	$13,106,083.86	

(1) Mandatory sinking fund principal payments from a $2,280,000 term bond due May 15, 2027.

See also "STATE BUILDING OWNERSHIP AUTHORITY—Debt Issuance" below.

Book–Entry System

DTC will act as securities depository for the 2006A Bonds. The 2006A Bonds will be issued as fully–registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully–registered 2006A Bond certificate will be issued for each maturity of the 2006A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or a "fast agent" of DTC. See "APPENDIX F—BOOK–ENTRY SYSTEM" for a more detailed discussion of the book–entry system and DTC.

Manner Of Payment, Registration, Transfer And Exchange

The Trustee will keep or cause to be kept sufficient books for the registration, exchange and transfer of the 2006A Bonds (as Bond Register). In all cases in which the privilege of exchanging or transferring the 2006A Bonds is exercised in the event that the book–entry system is discontinued and 2006A Bonds are transferred or exchanged, the Authority shall execute, and the Trustee shall authenticate, register and deliver, 2006A Bonds in accordance with the provisions of the Indenture. In such cases, any 2006A Bond may, in accordance with its terms, be transferred upon the Bond Register by the Owner of the 2006A Bond, in person or by such Owner's duly authorized attorney, upon surrender of such registered

2006A Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. Similarly, 2006A Bonds may be exchanged in such instances at the principal corporate trust office of the Trustee for a like principal amount of 2006A Bonds of other authorized denominations. The Trustee will require the Owner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange, and the Trustee may in addition require the payment of a reasonable sum to cover expenses incurred by the Authority or the Trustee in connection with such transfer or exchange.

Neither the Authority nor the Trustee shall be required to issue, register the transfer of or exchange any 2006A Bond (i) during the period from the Regular Record Date or the Special Record Date, whichever the case may be, for a Bond Interest Payment Date or special interest payment date to such interest payment date, and (ii) during a period beginning at the opening of business 15 days before the date of the mailing of a notice of redemption of 2006A Bonds selected for redemption under the Indenture and ending at the close of business on the day of such mailing. Neither the Authority nor the Trustee shall be required to register the transfer or exchange of any 2006A Bond selected for redemption in whole or in part, except for the unredeemed portion of such 2006A Bond.

STATE BUILDING OWNERSHIP AUTHORITY

Establishment And Statutory Powers

The Authority was created in 1979 as a body politic and corporate of the State. The Authority is empowered, among other things, to issue its bonds (with the prior approval of the Legislature) to finance the acquisition and construction of facilities to be leased to State agencies and their affiliated entities at rentals paid out of budget appropriations or other available funds for the lessee agencies, which in the aggregate will be sufficient to pay the principal of and interest on the Bonds as they become due and to maintain, operate and insure the facilities. The necessary prior approval of the Legislature for the issuance of such bonds is given by specific acts, which acts are generally passed upon during a General Session of the Legislature.

The Authority is also empowered, among other things, to: (i) contract with others for needed services; and (ii) cause to be executed mortgages, trust deeds, indentures, pledge agreements, assignments, security agreements, and financing statements encumbering property acquired, or constructed by the Authority.

Organization

The Authority is comprised of three members: the Governor or designee, the State Treasurer and the Chair of the State Building Board. The Building Ownership Act directs DFCM to construct and maintain any facilities acquired or constructed for the Authority.

Office/Position	Person	Time in Office	Expiration of Current Term
Lieutenant Governor/Chair	Gary R. Herbert	1 year	January 2009
State Building Board Chair/Vice Chair	Larry L. Jardine	2 years	May 2006
State Treasurer/Secretary	Edward T. Alter, CPA	2 years	January 2009

State Building Board

The State Building Board consists of seven voting members who are appointed by the Governor. In addition, the director of the Governor's Office of Planning and Budget of the State is a non–voting member of the board. The board acts as a policy–making board for DFCM. The board's current statutory responsibilities include the preparation and maintenance of a five–year building plan for submission to the

Governor and the Legislature, the establishment of design and construction standards for State facilities, the establishment of procurement rules for the design and construction and leasing of State facilities, and the establishment of policies and procedures regarding the functions of DFCM.

Division Of Facilities Construction And Management

DFCM is responsible for the design and construction of the facilities used by all state agencies and institutions. DFCM contracts with private architectural, engineering, and construction firms for the design and construction of facilities. DFCM reviews plans prior to bidding and supervises the design and construction processes. DFCM acts as staff to the State Building Board and assists it in analysis of facility needs and the prioritization of capital projects.

DFCM is responsible for the leasing of all facilities for state agencies with some exceptions. Information regarding leases is submitted annually to the Legislature for its review and approval. Other responsibilities of DFCM include the management and maintenance of many State facilities, the allocation of space among State agencies, and the ownership of much of the State's real property.

Legal Borrowing Debt Capacity

The Authority may not issue any bonds or other obligations under the Building Ownership Act in an amount which would exceed the difference between the total outstanding indebtedness of the State and 1.5% of the fair market value of the taxable property of the State, plus certain add–back indebtedness provided by legislative directive. As of January 19, 2006 (the anticipated closing date of the 2006A Bonds), the legal debt limit and additional debt incurring capacity of the Authority are calculated as follows:

Fair Market Value of Ad Valorem Taxable Property (1)	$173,003,833,163
Fees in lieu of Ad Valorem Taxable Property (2)	12,616,364,086
Total Fair Market Value of Taxable Property (1)	$185,620,197,249
1.5% Debt Limit Amount	$2,784,302,959
Less: Currently outstanding State General Obligation Debt (Net) (3)	(1,443,034,109)
Less: The Authority's outstanding Lease Revenue Bonds (Net) (3)	(349,025,868)
Plus: Statutorily exempt State General Obligation Highway Debt (Net) (3)	880,744,528
The Authority's Estimated Additional Debt Incurring Capacity	$1,872,987,510

(1) Based on 2004 taxable values. See "FINANCIAL INFORMATION REGARDING THE STATE OF UTAH—Property Tax Matters–Taxable Value Compared with Fair Market Value of All Taxable Property in the State" below.
(2) Based on 2004 "age based" values. For purposes of calculating debt incurring capacity only, the value of all motor vehicles and state–assessed commercial vehicles (which value is determined by dividing the uniform fee revenue by 1.5%) is added to the fair market value of the taxable property in the State.
(3) Reflects unamortized original issue bond premium and deferred amount on refunding that was treated as principal for purposes of calculating the applicable constitutional and statutory debt limits.

See also "DEBT STRUCTURE OF THE STATE OF UTAH—Legal Borrowing Authority" below.

The State's Limited Lease Rental Obligation

The Building Ownership Act provides that, except as otherwise provided therein, bonds issued by the Authority thereunder will be payable solely out of rentals or lease payments received by the Authority for the facilities constructed or acquired thereunder, and that, if the rentals paid by a lessee State agency to the Authority, from its own appropriated budget or other revenue sources, are insufficient to pay the principal and interest on such bonds, the Governor may request the Legislature to appropriate additional funds to that agency for the payment of increased rentals. The Legislature may, but is not required to, make such an appropriation. *Bonds issued pursuant to authorizing legislation of this type are sometimes referred to herein as "State Lease Rental Obligation Bonds."*

Debt Issuance

Current Lease Revenue Obligation Bonds Outstanding. The 2006A Bonds of the Authority will be the 16th series of bonds to be issued under the State Facilities Master Lease Program. Under the State Facilities Master Lease Program, no debt service reserve fund is created for any bonds issued under the Indenture and Lease. Under this program, all Bonds are issued on a parity basis and are cross–collateralized by the facilities subject to the lien of the Indenture and the Mortgages.

The 2006A Bonds and all other Bonds issued under the State Facilities Master Lease Program are not classified as State Moral Obligation Bonds as defined in "DEBT STRUCTURE OF THE STATE OF UTAH—Covenant Regarding Legislative Appropriations; 'Moral Obligation Bonds'" below. However, the Bonds are considered to be State Lease Rental Obligation Bonds.

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The Authority has the following bonds outstanding:

Issued (On A Parity Basis) Under The State Facilities Master Lease Program

Series	Purpose	Original Principal Amount	Final Maturity Date	Current Principal Outstanding (13)
2006A (1) (2)	DABC 2006A Facilities	$ 8,355,000	May 15, 2027	$ 8,355,000
2004A (2)	Refunding/various purpose	45,805,000	May 15, 2027	45,310,000
2004B (2)	Refunding	8,920,000	May 15, 2013	8,700,000
2003 (2)	Refunding/various purpose	22,725,000	May 15, 2025	22,610,000
2001C (3)	University of Utah	30,300,000	May 15, 2022	30,300,000
2001A (2)	University of Utah	69,850,000	May 15, 2021	67,850,000
2001B (2)	Various purpose	25,780,000	May 15, 2024	24,490,000
1999A (4)(5)	Various purpose	9,455,000	May 15, 2009 (10)	1,495,000
1998C (4)	Refunding	105,100,000	May 15, 2019	104,805,000
1998A (4)(5)	Various purpose	25,710,000	May 15, 2008 (10)	2,215,000
1997A (5)(6)	DABC 1997A Facilities	4,150,000	May 15, 2008 (10)	565,000
1996A (2)(7)	Various purpose	44,725,000	May 15, 2007 (11)	3,915,000
1996B (8)(9)	University of Utah	16,875,000	May 15, 2007 (12)	2,245,000
1995A (2)(7)	Various purpose	93,000,000	May 15, 2007 (11)	8,100,000
Total Principal amount of outstanding State Facilities Master Lease Program Bonds				$330,955,000

(1) For purposes of this OFFICIAL STATEMENT, the 2006A Bonds will be considered issued and outstanding.
(2) Rated "Aa1" by Moody's Investors Service, Inc. ("Moody's"); and "AA+" by Standard & Poor's Ratings Group, a division of The McGraw–Hill Companies, Inc. ("S&P"), as of the date of this OFFICIAL STATEMENT.
(3) These bonds bear interest at a variable interest rate. Rated "Aaa/VMIG1" by Moody's and "AAA/A–1+" by S&P, as of the date of this OFFICIAL STATEMENT.
(4) These bonds are rated "Aaa" (FSA Insured; underlying "Aa1") by Moody's, and "AAA" (FSA Insured; underlying "AA+") by S&P, as of the date of this OFFICIAL STATEMENT.
(5) Portions of this bond have been refunded by the 2004A Lease Revenue Bonds.
(6) These bonds are rated "Aaa" (Ambac Insured; underlying "Aa1") by Moody's and "AAA" (Ambac Insured; underlying "AA+") by S&P, as of the date of this OFFICIAL STATEMENT.
(7) Portions of this bond have been refunded by the 1998C Lease Revenue Bonds.
(8) Portions of this bond have been refunded by the 2004B Lease Revenue Bonds.
(9) These bonds are rated "Aaa" (MBIA Insured; underlying "Aa1") by Moody's and "AAA" (MBIA Insured; underlying "AA+") by S&P, as of the date of this OFFICIAL STATEMENT.
(10) Final maturity date after portions of this bond were refunded by the 2004A Lease Revenue Bonds.
(11) Final maturity date after portions of this bond were refunded by the 1998C Lease Revenue Bonds.
(12) Final maturity date after portions of this bond were refunded by the 2004B Lease Revenue Bonds.
(13) As of January 19, 2006, the scheduled issuance date for the 2006A Bonds.

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Other series of bonds issued by the Authority, as listed below under the caption "Issued Under Separate Stand Alone Legal Documents," are not issued on a parity basis with the 2006A Bonds or any other Bonds issued under the State Facilities Master Lease Program or each other. Separate debt service reserve funds have been established and funded for each of these other series of bonds.

Issued Under Separate Stand Alone Legal Documents

Series	Purpose	Original Principal Amount	Final Maturity Date	Current Principal Outstanding (3)
1993A (1)..	Human Services Building	$ 6,230,000	January 1, 2013	$ 2,975,000
1992A (1)..	Employment Security (2)	26,200,000	August 15, 2011	11,400,000
1992B (1)..	Youth Corrections	1,380,000	August 15, 2011	620,000
Total Authority's other bonds				$14,995,000

Summary

Total State Facilities Master Lease Program Bonds	$330,955,000
Total Authority's other bonds outstanding	14,995,000
Total Authority's Lease Revenue Bonds (4)	$345,950,000

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(1) Rated "Aa1" by Moody's, and "AA+" by S&P, as of the date of this OFFICIAL STATEMENT. No rating was requested from any other rating agency.
(2) Refunding issue.
(3) As of January, 19, 2006, the scheduled issuance date for the 2006A Bonds.
(4) For accounting purposes, the outstanding debt as shown above must be increased by the premium associated with debt issued and reduced by deferred amounts on refundings that are reported in the long–term debt notes of the State's financial statements. Thus, for accounting purposes, the total unamortized bond premium as of January 19, 2006 (the expected closing date of the 2006A Bonds) is $5,328,250 and the total deferred amount is $2,252,382, resulting in total outstanding net direct debt of $349,025,868.

Authorized Lease Revenue Bonds and Future Bonds Issuance. Notwithstanding the legal debt issuing capacity of the Authority discussed in this section under "Legal Borrowing Debt Capacity" above, the Authority may only issue bonds for facilities authorized by the Legislature. Under existing legislative authorization, the Authority has approximately $13 million of remaining bonding authority, comprised of $10.5 million for capital projects from a 2000 authorization and $2.5 million for capital projects from a 1999 authorization, for future projects that may be undertaken solely by vote of the Authority.

No Defaulted Authority Bonds Or Failures By State To Renew Lease

As of the date of this OFFICIAL STATEMENT, neither the Authority nor the State has ever failed to pay when due the principal of and interest on its bonded indebtedness and other payment obligations related thereto. As of the date of this OFFICIAL STATEMENT, the State has never failed to renew an annually renewable lease with the Authority.

Debt Service Schedule of Outstanding Lease Revenue Bonds (State Building Ownership Authority) By Fiscal Year (1)

Issued under the State Facilities Master Lease Program

Fiscal Year Ending	Series 2006A $8,335,000		Series 2004A $45,805,000		Series 2004B $8,920,000		Series 2003 $22,725,000		Series 2001C $30,300,000	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal (4)	Interest (5)
2006…………	$ 0	$ 113,254	$ 335,000	$ 2,204,650	$ 85,000	$ 313,145	$ 1,125,000	$ 872,193	$ 0	$ 887,142 (6)
2007…………	0	351,478	865,000	2,194,600	90,000	310,595	1,180,000	849,693	1,000,000	984,750
2008…………	280,000	351,478	895,000	2,168,650	1,295,000	307,895	1,210,000	823,143	1,400,000	952,250
2009…………	290,000	341,678	1,930,000	2,141,800	1,340,000	269,045	1,240,000	789,868	1,500,000	906,750
2010…………	300,000	330,078	2,405,000	2,079,075	1,380,000	225,495	1,275,000	752,668	1,600,000	858,000
2011…………	315,000	318,078	2,550,000	1,958,825	1,455,000	156,495	1,325,000	711,230	1,600,000	806,000
2012…………	325,000	307,053	2,665,000	1,831,325	1,500,000	108,480	1,375,000	663,530	1,700,000	754,000
2013…………	335,000	295,678	2,795,000	1,698,075	1,555,000	55,980	1,440,000	594,780	1,800,000	698,750
2014…………	350,000	282,278	2,945,000	1,558,325	–	–	835,000	537,180	1,900,000	640,250
2015…………	365,000	268,278	3,085,000	1,411,075	–	–	875,000	503,780	2,000,000	578,500
2016…………	380,000	253,678	3,245,000	1,256,825	–	–	900,000	468,780	2,100,000	513,500
2017…………	395,000	238,478	3,405,000	1,094,575	–	–	940,000	432,780	2,100,000	445,250
2018…………	410,000	222,678	2,450,000	924,325	–	–	980,000	394,240	2,200,000	377,000
2019…………	425,000	205,663	2,230,000	801,825	–	–	1,020,000	353,080	2,300,000	305,500
2020…………	445,000	187,600	2,345,000	690,325	–	–	1,065,000	310,240	2,300,000	230,750
2021…………	465,000	168,688	2,110,000	567,213	–	–	1,110,000	264,978	2,400,000	156,000
2022…………	485,000	145,438	1,665,000	456,438	–	–	1,160,000	216,415	2,400,000	78,000
2023…………	510,000	122,400	1,755,000	369,025	–	–	1,210,000	165,375	–	–
2024…………	535,000 (2)	96,900	1,845,000	276,888	–	–	1,265,000	110,925	–	–
2025…………	560,000 (2)	74,163	1,830,000 (3)	180,025	–	–	1,080,000	54,000	–	–
2026…………	580,000 (2)	50,363	1,250,000 (3)	93,100	–	–	–	–	–	–
2027…………	605,000 (2)	25,713	710,000 (3)	33,725	–	–	–	–	–	–
Totals…………	$ 8,355,000	$ 4,751,084	$45,310,000	$25,990,688	$8,700,000	$1,747,130	$ 22,610,000	$ 9,868,875	$30,300,000	$10,172,392

Fiscal Year Ending	Series 2001A $69,850,000		Series 2001B $25,780,000		Series 1999A $9,455,000		Series 1998C $105,100,000		Series 1998A $25,710,000	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006…………	$ 3,175,000	$ 3,392,500	$ 895,000	$ 1,136,003	$ 345,000	$ 78,488	$ 1,120,000	$ 5,735,675	$ 705,000	$ 98,970
2007…………	3,125,000	3,233,750	935,000	1,100,203	365,000	60,375	1,170,000	5,688,635	735,000	67,950
2008…………	3,250,000	3,077,500	965,000	1,062,803	380,000	41,213	7,715,000	5,638,325	775,000	34,875
2009…………	3,375,000	2,915,000	1,005,000	1,024,203	405,000	21,263	8,130,000	5,214,000	0	0 (8)
2010…………	3,500,000	2,746,250	1,055,000	984,003	0	0 (8)	8,575,000	4,766,850	0	0 (8)
2011…………	3,650,000	2,571,250	1,090,000	941,803	0	0 (8)	9,065,000	4,295,225	0	0 (8)
2012…………	3,800,000	2,388,750	1,135,000	898,203	0	0 (8)	8,995,000	3,796,650	0	0 (8)
2013…………	3,975,000	2,198,750	1,175,000	852,803	0	0 (8)	9,490,000	3,301,925	0	0 (11)
2014…………	4,175,000	2,000,000	1,225,000	804,628	0	0 (8)	10,010,000	2,779,975	0	0 (11)
2015…………	4,400,000	1,791,250	1,280,000	753,178	0	0 (9)	9,540,000	2,229,425	0	0 (11)
2016…………	4,625,000	1,571,250	1,335,000	698,138	0	0 (9)	9,950,000 (10)	1,704,725	0	0 (11)
2017…………	4,850,000	1,340,000	1,400,000	631,388	0	0 (9)	9,835,000 (10)	1,157,475	0	0 (11)
2018…………	5,100,000	1,097,500	1,465,000	561,388	0	0 (9)	8,940,000 (10)	616,550	0	0 (11)
2019…………	5,350,000	842,500	1,550,000	488,138	0	0 (9)	2,270,000 (10)	124,850	0	0 (11)
2020…………	5,600,000	575,000	1,620,000	410,638	0	0 (9)	–	–	0	0 (11)
2021…………	5,900,000	295,000	1,705,000	329,638	0	0 (9)	–	–	–	–
2022…………	–	–	1,760,000 (7)	244,388	–	–	–	–	–	–
2023…………	–	–	1,850,000 (7)	151,988	–	–	–	–	–	–
2024…………	–	–	1,045,000 (7)	54,863	–	–	–	–	–	–
2025…………	–	–	–	–	–	–	–	–	–	–
2026…………	–	–	–	–	–	–	–	–	–	–
2027…………	–	–	–	–	–	–	–	–	–	–
Totals…………	$67,850,000	$32,036,250	$24,490,000	$13,128,397	$1,495,000	$ 201,338	$104,805,000	$47,050,285	$ 2,215,000	$ 201,795

(1) This table reflects the Authority's debt service schedule for its lease revenue bonds for the fiscal year shown. This information is based on payments (cash basis) falling due in that particular fiscal year.
(2) Mandatory sinking fund payments from a $2,280,000, 4.25%, term bond due May 15, 2027.
(3) Mandatory sinking fund payments from a $3,790,000, 4.75%, term bond due May 15, 2027.
(4) These principal payments are based on the Authority's current expectations for the redemption of the 2001C Lease Revenue Bonds (as of September 13, 2005). The Authority is not required by the Indenture to provide for such payment in advance of the maturity date of the 2001C Lease Revenue Bonds. The maturity date for the 2001C Lease Revenue Bonds is May 15, 2022.
(5) The 2001C Lease Revenue Bonds are variable rate interest bonds. Interest has been estimated at an average coupon rate of 3.25% per annum.
(6) Includes $312,704 of actual interest paid from July 1, 2005 to November 30, 2005. From December 1, 2005 through June 30, 2006, interest has been estimated at 3.25% per annum ($574,438).
(7) Mandatory sinking fund payments from a $4,655,000, 5.25%, term bond due May 15, 2024.
(8) Principal and interest have been refunded by the 2004A Lease Revenue Bonds.
(9) Principal and interest have been refunded by the 2004A Lease Revenue Bonds ($4,335,000, 5.50%, term bond which was due May 15, 2021).
(10) Mandatory sinking fund payments from a $30,995,000, 5.50%, term bond due May 15, 2019.
(11) Principal and interest have been refunded by the 2004A Lease Revenue Bonds ($5,800,000, 5.25%, term bond which was due May 15, 2020).

Debt Service Schedule of Outstanding Lease Revenue Bonds (State Building Ownership Authority) By Fiscal Year (1)–continued

Issued under the State Facilities Master Lease Program

Fiscal Year Ending June 30	Series 1997A $4,150,000 Principal	Series 1997A Interest	Series 1996A $44,725,000 Principal	Series 1996A Interest	Series 1996B $16,875,000 Principal	Series 1996B Interest	Series 1995A $93,000,000 Principal	Series 1995A Interest
2006…………	$180,000	$26,185	$1,905,000	$215,325	$1,095,000	$112,250	$ 3,945,000	$ 418,242
2007…………	190,000	17,905	2,010,000	110,550	1,150,000	57,500	4,155,000	216,060
2008…………	195,000	9,165	0	0 (4)	0	0 (7)	0	0 (4)
2009…………	0	0 (2)	0	0 (4)	0	0 (7)	0	0 (4)
2010…………	0	0 (2)	0	0 (4)	0	0 (7)	0	0 (4)
2011…………	0	0 (2)	0	0 (4)	0	0 (8)	0	0 (4)
2012…………	0	0 (2)	0	0 (4)	0	0 (8)	0	0 (4)
2013…………	0	0 (2)	0	0 (4)	0	0 (8)	0	0 (4)
2014…………	0	0 (2)	0	0 (4)	–	–	0	0 (4)
2015…………	0	0 (3)	0	0 (4)	–	–	0	0 (4)
2016…………	0	0 (3)	0	0 (5)	–	–	0	0 (4)
2017…………	0	0 (3)	0	0 (4)	–	–	0	0 (4)
2018…………	0	0 (3)	0	0 (4)	–	–	0	0 (9)
2019…………	–	–	0	0 (6)	–	–	–	–
2020…………	–	–	–	–	–	–	–	–
2021…………	–	–	–	–	–	–	–	–
2022…………	–	–	–	–	–	–	–	–
2023…………	–	–	–	–	–	–	–	–
2024…………	–	–	–	–	–	–	–	–
2025…………	–	–	–	–	–	–	–	–
2026…………	–	–	–	–	–	–	–	–
2027…………	–	–	–	–	–	–	–	–
Totals……….	$565,000	$53,255	$3,915,000	$325,875	$2,245,000	$169,750	$ 8,100,000	$ 634,302

(1) This table reflects the Authority's debt service schedule for its lease revenue bonds for the fiscal year shown. This information is based on payments (cash basis) falling due in that particular fiscal year.
(2) Principal and interest have been refunded by the 2004A Bonds.
(3) Principal and interest have been refunded by the 2004A Bonds ($1,210,000, 5.125%, term bond which was due May 15, 2018).
(4) Principal and interest have been refunded by the 1998C Lease Revenue Bonds.
(5) Principal and interest have been refunded by the 1998C Lease Revenue Bonds ($5,140,000, 6.00%, term bond which was due May 15, 2016).
(6) Principal and interest have been refunded by the 1998C Lease Revenue Bonds ($7,960,000, 6.00%, term bond which was due May 15, 2019).
(7) Principal and interest have been refunded by the 2004B Bonds.
(8) Principal and interest have been refunded by the 2004B Bonds ($4,460,000, 5.40%, term bond which was due May 15, 2013).
(9) Principal and interest have been refunded by the 1998C Lease Revenue Bonds ($18,555,000, 5.75%, term bond which was due May 15, 2018).

Debt Service Schedule of Outstanding Lease Revenue Bonds (State Building Ownership Authority) By Fiscal Year (1)–continued

Issued Under Stand Alone Legal Documents

Fiscal Year Ending June 30	Series 1993A; $6,230,000 Principal	Interest	Total Debt Service	Series 1992B; $1,380,000 Principal	Interest	Total Debt Service	Series 1992A; $26,200,000 Principal	Interest	Total Debt Service
2006……….	$ 345,000	$ 171,355	$ 516,355	$ 85,000	$ 38,669	$ 123,669	$ 1,545,000	$ 699,533	$ 2,244,533
2007……….	360,000	154,105	514,105	90,000	33,638	123,638	1,640,000	608,350	2,248,350
2008……….	380,000	136,105	516,105	95,000	28,319	123,319	1,735,000	511,319	2,246,319
2009……….	400,000	116,725	516,725	100,000	22,713	122,713	1,835,000	408,681	2,243,681
2010……….	425,000	96,125	521,125	105,000	16,819	121,819	1,945,000	300,006	2,245,006
2011……….	445,000 (2)	74,025	519,025	110,000	10,500	120,500	2,060,000	184,863	2,244,863
2012……….	470,000 (2)	50,663	520,663	120,000	3,600	123,600	2,185,000	62,819	2,247,819
2013……….	495,000 (2)	25,988	520,988	–	–	–	–	–	–
2014……….	–	–	–	–	–	–	–	–	–
2015……….	–	–	–	–	–	–	–	–	–
2016……….	–	–	–	–	–	–	–	–	–
2017……….	–	–	–	–	–	–	–	–	–
2018……….	–	–	–	–	–	–	–	–	–
2019……….	–	–	–	–	–	–	–	–	–
2020……….	–	–	–	–	–	–	–	–	–
2021……….	–	–	–	–	–	–	–	–	–
2022……….	–	–	–	–	–	–	–	–	–
2023……….	–	–	–	–	–	–	–	–	–
2024……….	–	–	–	–	–	–	–	–	–
2025……….	–	–	–	–	–	–	–	–	–
2026……….	–	–	–	–	–	–	–	–	–
2027……….	–	–	–	–	–	–	–	–	–
Totals……….	$ 3,320,000	$ 825,091	$ 4,145,091	$ 705,000	$ 154,258	$ 859,258	$ 12,945,000	$ 2,775,571	$ 15,720,571

Fiscal Year Ending June 30	Total Bonds issued under **State Facilities Master Lease Program*** Total Principal	Total Interest	Total Debt Service	Total Bonds issued under **Stand Alone Legal Documents** Total Principal	Total Interest	Total Debt Service	**Total All Lease Obligations*** Total Principal	Total Interest	Total Debt Service
2006……….	$ 14,910,000	$ 15,604,021	$ 30,514,021	$ 1,975,000	$ 909,557	$ 2,884,557	$ 16,885,000	$ 16,513,578	$ 33,398,578
2007……….	16,970,000	15,244,043	32,214,043	2,090,000	796,093	2,886,093	19,060,000	16,040,136	35,100,136
2008……….	18,360,000	14,467,296	32,827,296	2,210,000	675,743	2,885,743	20,570,000	15,143,039	35,713,039
2009……….	19,215,000	13,623,606	32,838,606	2,335,000	548,119	2,883,119	21,550,000	14,171,725	35,721,725
2010……….	20,090,000	12,742,418	32,832,418	2,475,000	412,950	2,887,950	22,565,000	13,155,368	35,720,368
2011……….	21,050,000	11,758,906	32,808,906	2,615,000	269,388	2,884,388	23,665,000	12,028,294	35,693,294
2012……….	21,495,000	10,747,991	32,242,991	2,775,000	117,082	2,892,082	24,270,000	10,865,073	35,135,073
2013……….	22,565,000	9,696,741	32,261,741	495,000	25,988	520,988	23,060,000	9,722,729	32,782,729
2014……….	21,440,000	8,602,636	30,042,636	–	–	–	21,440,000	8,602,636	30,042,636
2015……….	21,545,000	7,535,486	29,080,486	–	–	–	21,545,000	7,535,486	29,080,486
2016……….	22,535,000	6,466,896	29,001,896	–	–	–	22,535,000	6,466,896	29,001,896
2017……….	22,925,000	5,339,946	28,264,946	–	–	–	22,925,000	5,339,946	28,264,946
2018……….	21,545,000	4,193,681	25,738,681	–	–	–	21,545,000	4,193,681	25,738,681
2019……….	15,145,000	3,121,556	18,266,556	–	–	–	15,145,000	3,121,556	18,266,556
2020……….	13,375,000	2,404,553	15,779,553	–	–	–	13,375,000	2,404,553	15,779,553
2021……….	13,690,000	1,781,516	15,471,516	–	–	–	13,690,000	1,781,516	15,471,516
2022……….	7,470,000	1,140,678	8,610,678	–	–	–	7,470,000	1,140,678	8,610,678
2023……….	5,325,000	808,788	6,133,788	–	–	–	5,325,000	808,788	6,133,788
2024……….	4,690,000	539,576	5,229,576	–	–	–	4,690,000	539,576	5,229,576
2025……….	3,470,000	308,188	3,778,188	–	–	–	3,470,000	308,188	3,778,188
2026……….	1,830,000	143,463	1,973,463	–	–	–	1,830,000	143,463	1,973,463
2027……….	1,315,000	59,438	1,374,438	–	–	–	1,315,000	59,438	1,374,438
Totals……….	$330,955,000	$146,331,415	$477,286,415	$16,970,000	$3,754,920	$20,724,920	$347,925,000	$150,086,335	$498,011,335

* Preliminary; subject to change. The Authority has variable interest rate demand bonds outstanding.

(1) This table reflects the Authority's debt service schedule for its lease revenue bonds for the fiscal year shown. This information is based on payments (cash basis) falling due in that particular fiscal year.

(2) Mandatory sinking fund payments from a $1,410,000, 5.25%, term bond due January 1, 2013.

THE FACILITIES

The Facilities As Security For The 2006A Bonds

The 2006A Bonds are equally and ratably secured by the lien of the Indenture and the Lease, subject to the terms, conditions, limitations and exceptions set forth therein. Upon the occurrence of an Event of Default under the Indenture or the occurrence of an Event of Nonappropriation under the Lease, the State shall be required to surrender and vacate the Facilities, the Trustee shall have all rights and remedies to take possession of the Facilities as trustee for the benefit of the Beneficial Owners of the 2006A Bonds, and the Trustee may exercise various remedies against or with respect to the Facilities under the Indenture and the Lease for the proportionate benefit of the Beneficial Owners of the 2006A Bonds, subject to the limitation on remedies and acceleration during acquisition and construction of any of the Facilities. See in this section "Cross–Collateralization" below. See also "THE 2006A BONDS—Security And Sources Of Payment For The 2006A Bonds–The Lease and the Indenture" above. Under the Lease, an Event of Non-appropriation will occur if the Legislature fails or refuses to specifically appropriate moneys sufficient to pay the Rentals with respect to a portion of the Facilities coming due in any fiscal year under the Lease.

Certain of the Facilities are part of larger projects, additional funding for which has come from sources other than Bonds issued under the Indenture ("Non–Bond Financed Projects"). Facilities do not include any Non–Bond Financed Project portions except to the extent, if any, covered by the appropriate Site Leases where necessary to provide requisite structural support for the respective Facilities.

The 2006A Facilities

The 2006A Facilities include the acquisition and construction of three State–operated alcoholic beverage outlets (approximately $7.9 million) for the Department of Alcoholic Beverage Control of the State and related facilities, property and improvements. The retail outlets are to be located in Washington County, Utah; Salt Lake County, Utah; and in or near downtown Salt Lake City, Utah (the acquisition of the sites and construction is expected to be completed by July 2007);

The Facilities Financed With Prior Parity Bonds

Set forth below is a brief description of certain major Facilities financed through the proceeds of the Prior Parity Bonds. The Facilities consist of approximately 54 separate facilities, located in various counties within the State, that are used by various departments of State government and state bodies including the Department of Alcoholic Beverage Control, the University of Utah (the "University"), the University's Health Sciences Center, the College of Eastern Utah, various District and Juvenile Courts, the Department of Corrections, the Department of Community and Economic Development, the Department of Human Services, the Department of Natural Resources and its Division of Parks and Recreation, the State Office of Education, the Department of Environmental Quality, the Department of Transportation and others. The most significant of these facilities include:

(1) The Huntsman Cancer Institute expansion, a $105 million, 272,000 square–foot, cancer research hospital located on the campus of the University and adjacent to the existing Huntsman Cancer Institute. This expansion was financed with approximately $100.2 million ($30.3 million of variable rate bonds and approximately $69.9 million fixed rate bonds) issued by the Authority and various public and private contributions.

(2) The State Courts Complex, a five–story structure with approximately 417,000 square feet of space located in Salt Lake City. The Authority issued approximately $60.7 million of bonds to finance this facility.

(3) Two office buildings located in Salt Lake City, totaling approximately 77,000 square feet of space, used by the Department of Environmental Quality (“DEQ”). The Authority issued approximately $18.3 million of bonds to finance these facilities.

(4) The Huntsman Cancer Institute, a $73 million dollar cancer research center adjacent to the University’s Health Sciences Center. A portion of this facility was financed with approximately $16.9 million of bonds issued by the Authority and various public and private contributions.

(5) The West Jordan (Salt Lake County) Courts Complex project. The Authority issued approximately $13.9 million of bonds to finance this facility.

(6) The acquisition of a Youth Corrections Facility in Salt Lake County to be used by the Department of Human Services. The Authority issued approximately $13.3 million of bonds to finance this facility.

(7) An office building of approximately 137,000 square feet in Salt Lake County used by the Department of Community and Economic Development (“DCED”). The Authority issued approximately $13.1 million of bonds to finance this facility.

(8) An office building of approximately 95,000 square feet in Salt Lake City used by the Department of Natural Resources (“DNR”). The Authority issued approximately $10.6 million of bonds to finance this facility.

(9) The Davis County Courts Complex. The Authority issued approximately $10.5 million of bonds to finance this facility.

The following table provides further summary information regarding the Facilities:

Facility	Construction Status	Scheduled Release Date (May 16) (1)
Huntsman Cancer Institute (expansion)	Completed–2004	2022
State Courts Complex	Completed–1998	2018
DEQ Office	Completed–1993–1995	2014
Huntsman Cancer Institute	Completed–1999	2013
West Jordan (Salt Lake County) Courts	Completed–2005	2025
Youth Corrections	Completed–1998	2017
DCED Office	Completed–1999	2019
DNR Office	Completed–1997	2017
Davis County Courts	Completed–1999	2019
All Other Facilities	Completed or under construction	2006–2027

(1) See “Release Of Portions Of Facilities–Scheduled Release of Facilities” below.

Cross–Collateralization

Subject to the paragraph in the following section “Release Of Portions Of Facilities,” pursuant to the Indenture and the Lease, all of the 2006A Bonds issued under the Indenture are cross–collateralized in that the Authority has granted to the Trustee, for the benefit of the Owners of all of the Bonds, a mortgage and security interest in all of the Authority’s right, title and interest in all of the Facilities. The occurrence of an Event of Default under the Indenture or an Event of Nonappropriation under the Lease will entitle the Trustee to take possession of the Facilities and to exercise its rights and remedies to the extent provided in the Indenture against the Facilities in such manner and order as the Trustee determines to be in the best interests of the Owners of the Bonds then outstanding. However, the security interest in some of the Facilities may be released prior to the payment of all of the 2006A Bonds as described below under "Release of Portions of Facilities–Release of Portions of Facilities Upon Discharge of Related Series of Bonds."

Release Of Portions Of Facilities

Under the terms and conditions provided in the Indenture and the Lease, portions of the Facilities may be released from the liens of the Indenture and the Mortgages and the terms of the Lease as follows:

General Release of Portions of Facilities

So long as no Event of Default or Event of Nonappropriation has occurred under the Lease and is then continuing, the State and the Authority may make, from time to time, without the consent of the Trustee or the Owners of the Bonds, such modifications, alterations, amendments or additions to, or deletions from, the sites on which any of the Facilities are located as the State and the Authority mutually agree to be necessary and desirable to facilitate the use and development by the State, its successors, permitted sublessees and assigns, of such sites; *provided, however,* that the portions of each such respective site remaining subject to the Lease and the Indenture after any such modification, alteration, amendment to, or deletion from, such site shall (i) be capable of being operated as a separate and independent functional unit without additional cost to the occupant, (ii) be a single legal parcel of land or a combination of contiguous legal parcels, (iii) include the Facilities located on each such respective site financed with the proceeds of sale of the Bonds or the replacement of such Facilities, (iv) have adequate access to and from public streets and easements for the maintenance of all utilities and (v) not be in violation of any applicable law, rule, regulation, ordinance, covenant or restriction relating thereto. The State and the Authority covenant in the Lease not to agree to any modification, alteration, amendment or addition to or deletion from the sites on which any of the Facilities are located that would reduce the fair rental value of the Facilities remaining subject to the Lease (such value to be determined in each instance with reference to the value to the State based upon its use of the Facilities under the Lease and not with reference to such value as may be applicable for a different use or by a different user of the Facilities) below the Rentals payable under the Lease or adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or otherwise adversely affect the purposes for which the Authority acquired the Facilities and for which the State is leasing the Facilities pursuant to the Lease.

Release of Portions of Facilities Upon Exercise of Purchase Option

The Authority's interest in any portion of the Facilities representing separate Facilities shall be transferred to the State and title thereto shall thereupon vest in the State upon the exercise by the State of its option to purchase such separate Facilities upon the terms and conditions provided in the Lease.

Release of Portions of Facilities Upon Discharge of Related Series of Bonds

At such time as all Bonds of one or more Series issued to finance or refinance any separately identifiable portion of the Facilities are deemed to be paid under the Indenture, such Bonds shall no longer be secured by or entitled to the benefits of the Indenture or the Mortgages, except for the purposes of registration and exchange of Bonds and from moneys or Government Obligations (as that term is defined in the Indenture) deposited with or for the benefit of the Trustee therefor, and the Trustee shall release the liens and security interests granted by the Indenture and the Mortgages with respect to such portions of the Facilities.

Release of Portions of Facilities

So long as no Event of Nonappropriation or Event of Default has occurred and is then continuing under the Lease or the Indenture, the State shall be entitled to designate to the Authority and the Trustee components of certain Facilities to be released from the security interests and lien granted to the Trustee by the Indenture and the related Mortgage, but only to the extent that the value of the Facilities remaining subject to such security interests and lien immediately after such proposed release is not less than the then unpaid principal balance of the portion of the Base Rentals relating to the remaining components of such Facilities.

Scheduled Release of Facilities

So long as no Event of Default has occurred and is then continuing under the Indenture or the Mortgage relating to a Facility to be released and assuming the State has not previously exercised its option to purchase such Facilities, the security interest and liens granted to the Trustee by the Indenture and such Mortgage are scheduled to be released on certain dates specified in the Lease and the Indenture.

Notwithstanding anything to the contrary in the Lease, no portion of the Facilities shall be released, unless, in each instance, the State delivers to the Trustee, the Authority and each of the Appropriate Rating Agencies written notice of the proposed release at least 10 days in advance of such release together with a certificate executed by an authorized Lessee representative to the effect that the release of the portion of the Facilities identified in the applicable notice required by the Lease will not reduce the fair rental value of the Facilities remaining subject to the Lease (such value to be determined in each instance with reference to the value to the State based upon its use of the Facilities under the Lease and not with reference to such value as may be applicable for a different use or by a different user of the Facilities) below the Rentals payable under the Lease from and after such release.

Maintenance Of The Facilities

The State has covenanted in the Lease, at its own expense, to maintain, manage and operate the Facilities in good order, condition and repair, ordinary wear and tear excepted. The State will provide or cause to be provided all power, gas, telephone, light, heating and water and all other public utility services. See “APPENDIX B—BASIC DOCUMENTATION–THE LEASE–Maintenance And Operation.”

STATE OF UTAH GOVERNMENTAL ORGANIZATION

The following description of State government emphasizes those functions of government that might have a direct bearing or effect on the financial condition of the State and the State’s bonded indebtedness, and is not intended as a detailed description of all functions of the State’s government.

Governmental Departments

The Constitution of the State (the “State Constitution”) divides the powers of government into three distinct departments: the Legislative Department, the Executive Department and the Judicial Department.

Legislative Department

The Legislature is composed of the Senate (29 members) and the House (75 members). The Legislature meets in regular session annually for 45 calendar days beginning the third Monday in January.

The Legislature establishes basic State policies and prescribes administrative functions through its lawmaking, investigative and fiscal powers. The Legislature imposes taxes to provide revenue and makes appropriations to carry out all the activities of State government. The Legislature also provides some financial support for certain local activities, such as roads and schools.

Executive Department

The Executive Department consists of the offices of Governor, Lieutenant Governor, State Auditor, State Treasurer, and Attorney General, each of which is an elective office. The terms of office of each of these officials are four years each and run concurrently. Current executive department members and their respective terms in office are as follows:

Office	Person	Time in Office	Expiration of Current Term
Governor	Jon M. Huntsman, Jr.	1 year	January 2009
Lieutenant Governor	Gary R. Herbert	1 year	January 2009
State Auditor	Auston G. Johnson, III, CPA	10 years	January 2009
State Treasurer	Edward T. Alter, CPA	25 years	January 2009
Attorney General	Mark L. Shurtleff	5 years	January 2009

Judicial Department

The State Constitution provides that the "judicial power of the State shall be vested in a supreme court, in a trial court of general jurisdiction known as the district court, and in such other courts as the Legislature by statute may establish." The State statutes list such other courts as the Court of Appeals, the juvenile courts, justice courts, and the small claims courts. The Supreme Court, the Court of Appeals, the district courts, and the juvenile courts are all courts of record. In addition, most departments and agencies of the State have administrative proceedings which are conducted pursuant to the Utah Administrative Procedures Act by administrative law judges or hearing officers, whose determinations are subject to appeal through the judicial system.

Certain Commissions And Agencies

The following contains information regarding certain State commissions and administrative agencies in finance, administration and planning of State government:

Utah State Tax Commission

The Utah State Tax Commission (the "State Tax Commission") is a four–member commission whose members are appointed by the Governor with the consent of the Senate. No more than two members of the State Tax Commission may be of the same political party. The State Tax Commission has a number of operating divisions, each of which is responsible for administering major areas of tax and collection. The State Tax Commission's powers and responsibilities include, among others, the following:

(a) administration, supervision and enforcement of the tax laws of the State and the formulation of State tax policy through rules, guidelines and directives;

(b) assessment and equalization of Centrally–Assessed Properties (as hereinafter defined) including mines, railroads, public utilities, pipelines and certain other properties;

(c) administration of funding for the minimum school program and levying the State–wide minimum basic property tax rate based on appropriations set by the Legislature;

(d) collection of various State taxes, including State sales and use tax, local option sales taxes, individual income tax, corporate franchise (income) taxes, and motor fuel and special fuel taxes;

(e) collection and distribution of the local option sales taxes and seven additional optional sales taxes to the State's cities, towns and counties; and

(f) administration of the State's motor vehicle registration laws.

Department of Administrative Services

The Department of Administrative Services (the "Department") coordinates the agencies that provide administrative support to State government.

Among the purposes of the Department are to provide effective, coordinated management of State administrative services, to serve the public interest by providing services in a cost–effective and efficient manner, by eliminating unnecessary duplication, to enable administrators to respond effectively to technological improvements, to emphasize the service role of State administrative service agencies in meeting the service needs of user agencies, and to protect the public interest by insuring the integrity of the fiscal accounting procedures and policies which govern the operation of agencies and institutions to assure that funds are expended properly and lawfully. The Department is presently composed of the following divisions: Administrative Rules; Archives and Records; DFCM; Finance; Fleet Operations; Information Technology Services; Office of State Debt Collection; State Purchasing and General Services; Risk Management; and Office of Child Welfare Parental Defense.

Division of Finance. The Director of the Division of Finance is appointed by the Executive Director of the Department with the Governor's approval and serves at the pleasure of the Executive Director. The Director of the Division of Finance is the State's Chief Fiscal Officer and, ex–officio, the State's Accounting Officer. The statutes creating the Division of Finance give it authority and responsibility to:

(a) maintain financial accounts for State departments including work programs, appropriations, allotments and expenditures;

(b) maintain a central accounting system and approve accounting systems of State departments;

(c) supervise enforcement of travel rules and regulations;

(d) audit all claims against the State for which an appropriation has been made;

(e) approve proposed expenditures for the purchase of supplies and services requested by State agencies except institutions of higher education; and

(f) issue financial reports of the State and report financial information to the Governor and Legislature when requested.

Governor's Office of Planning and Budget

The Governor's Office of Planning and Budget prepares the Governor's budget recommendations, monitors state agency expenditures, forecasts and monitors revenues and coordinates state planning activities.

Planning. State planning coordination encompasses a broad mix of intergovernmental coordination; data development, research and analysis; and special issue resolution. The Governor's Office of Planning and Budget directs these activities based on guidance from the Governor and the Legislature. The office's intergovernmental coordination function includes a systematic review of all federal, state or local actions that impact the State's physical resources, as well the coordination of State agency planning and State/local planning. Data development, research and analysis occur in the office in support of the budgeting and planning priorities. The office forecasts and monitors State revenues, prepares economic and demographic projections, analyzes the impacts of projects, and conducts research on policy issues important to the Governor.

Budget Preparation. Spending agencies must prepare a proposed work program and the estimated requirements to accomplish the program together with the source of funds available for its financing. Budget requests with supporting information and revenue projections are reviewed by the Governor, who transmits his own budget recommendations to the Legislature.

Review and Adoption. The Legislature reviews the budget requests, together with all other related information, and adopts a final budget in the amount it deems advisable for each activity in relation to all other functions of the governmental unit. It is primarily the prerogative of the Legislature to determine the major policies and programs.

Budget Execution. The spending agencies carry out their planned programs within the limitations prescribed by the Legislature. The Division of Finance and the Governor's Office of Planning and Budget review all planned expenditures by spending agencies to make sure that they conform with and do not exceed the limits authorized by the Legislature. This review is intended primarily to ensure that expenditures are authorized by the law.

DEBT STRUCTURE OF THE STATE OF UTAH

Legal Borrowing Authority

Constitutional and Statutory Limitations on State General Obligation Indebtedness

Constitutional Debt Limit. Article XIV, Section 1 of the State Constitution limits the total general obligation indebtedness of the State to an amount equal to 1.5% of the value of the total taxable property of the State, as shown by the last assessment for State purposes previous to incurring such debt. The application of this constitutional debt limit and the additional debt incurring capacity of the State under the Constitution are estimated to be as follows on January 19, 2006 (the anticipated closing date for the 2006A Bonds):

Fair Market Value of Ad Valorem Taxable Property (1)	$173,003,833,163
Uniform Fees in lieu of Ad Valorem Taxable Property (2)	12,616,364,086
Total Fair Market Value of Taxable Property (1)	$185,620,197,249
Constitutional Debt Limit (1.5%)	$2,784,302,959
Less: Currently outstanding General Obligation Debt (Net) (3)	(1,443,034,109)
Estimated Additional Constitutional Debt Incurring Capacity of the State (4)	$1,341,268,850

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(1) Based on 2004 taxable values. See "FINANCIAL INFORMATION REGARDING THE STATE OF UTAH—Property Tax Matters–Taxable Value Compared with Fair Market Value of All Taxable Property in the State" below.

(2) Based on 2004 "age based" values. For purposes of calculating debt incurring capacity only, the value of all motor vehicles and state–assessed commercial vehicles (which value is determined by dividing the uniform fee revenue by 1.5%) is added to the fair market value of the taxable property in the State.

(3) Reflects unamortized original issue bond premium and deferred amount on refunding that was treated as principal for purposes of calculating the applicable constitutional and statutory debt limits.

(4) The State is further limited on its issuance of general obligation indebtedness by statute. See in this section "Statutory General Obligation Debt Limit" below.

See also in this section "Authorized General Obligation Bonds and Future General Obligation Bonds Issuance" below.

Statutory General Obligation Debt Limit. Title 63, Chapter 38c, of the Utah Code (the "State Appropriations and Tax Limitation Act"), among other things, limits the maximum general obligation borrowing ability of the State. Under the State Appropriations and Tax Limitation Act, the outstanding general obligation debt of the State at any time may not exceed 45% of the maximum allowable State budget appropriations limit as provided in that act. The State Appropriations and Tax Limitation Act also limits State government appropriations based upon a formula that reflects the changes in population and inflation. See "FINANCIAL INFORMATION REGARDING THE STATE OF UTAH—Recent Developments–Spending and Debt Limitations" below.

On occasion, the Legislature has amended the State Appropriations and Tax Limitation Act in order to provide an exemption for certain general obligation highway bonds and bond anticipation notes from the limitations imposed by the State Appropriations and Tax Limitation Act.

Using the budget appropriations for Fiscal Year 2006, the statutory general obligation debt limit under the State Appropriations and Tax Limitation Act and additional general obligation debt incurring capacity of the State under that act are as follows:

Statutory General Obligation Debt Limit (1)	$932,361,313
Less: Statutorily Applicable General Obligation Debt (Net) (2)	(562,289,581)
Remaining Statutory General Obligation Debt Incurring Capacity	$370,071,732

(1) 45% of Fiscal Year 2006 appropriation limit of $2,071,914,028.
(2) Reflects unamortized original issue bond premium and deferred amount on refunding that was treated as principal for purposes of calculating the applicable constitutional and statutory debt limits.

As additional general obligation bonds are issued and outstanding general obligation bonds are retired, the unused maximum general obligation borrowing capacity of the State under the State Appropriations and Tax Limitation Act will fluctuate. The State Appropriations and Tax Limitation Act may be amended in the future by majority vote of both houses of the Legislature.

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The calculation of the historical constitutional debt limit, the general obligation debt, the additional general obligation debt incurring capacity, and the statutory debt limit for the State for each of the Fiscal Years 2001 through 2005 is as follows:

	Fiscal Year Ended June 30 (in thousands)				
	2005	2004	2003	2002	2001
Fair Market Value of Ad Valorem Taxable Property (1)	$173,003,833	$164,567,250	$159,659,350	$153,166,346	$142,253,454
Fees in lieu of Ad Valorem Tax (2)	12,616,364	11,973,726	11,116,588	10,019,394	10,075,896
Fair Market Value for Debt Incurring Capacity	$185,620,197	$176,540,976	$170,775,938	$163,185,740	$152,329,350
Constitutional:					
Constitutional Debt Limit	$2,784,303	$2,648,115	$2,561,639	$2,447,786	$2,284,940
Outstanding Constitutional General Obligation Debt (Net) (3)	(1,587,804)	(1,588,810)	(1,713,755)	(1,498,371)	(1,146,000)
Additional Debt Incurring Capacity (*constitutional*)	$1,196,499	$1,059,305	$ 847,884	$ 949,415	$1,138,940
Statutory:					
Statutory General Obligation Debt Limit	$880,463	$835,292	$830,137	$835,341	$759,702
Outstanding General Obligation Debt (Net) (3) (4)	(630,711)	(607,999)	(693,706)	(494,367)	(238,000)
Additional General Obligation Debt Incurring Capacity (*statutory*)	$249,752	$227,293	$136,431	$340,974	$521,702

(1) Actual collection of ad valorem taxes is affected by legislation that may limit the percentage of fair market value which may be used as the basis for taxation.
(2) For purposes of calculating debt incurring capacity only, the value of all motor vehicles and state–assessed commercial vehicles (which value is determined by dividing the uniform fee revenue by 1.5%) is added to the fair market value of the taxable property in the State.
(3) Reflects unamortized original issue bond premium and deferred amount on refunding that was treated as principal for purposes of calculating the applicable constitutional and statutory debt limits.
(4) Certain general obligation highway indebtedness is exempt from the State Appropriations and Tax Limitation Act.

(Sources: Property Tax Division, State Tax Commission (as to Taxable Value only) and the Financial Advisor.)

See also “FINANCIAL INFORMATION REGARDING THE STATE OF UTAH—Property Tax Matters” below.

Authorized General Obligation Bonds and Future General Obligation Bonds Issuance

The State has approximately $52.3 million ($4.6 million for capital projects from a 2005 authorization; $9.1 million for capital projects from a 2004 authorization; $26.4 million for highway projects from a 2003 authorization; $6.2 million for higher education building projects from a 2002 authorization; and $6 million for transportation projects from a 2000 authorization) aggregate principal amount of additional authorized and unissued general obligation bonds, the proceeds of which bonds, when issued, will be used by the Utah Department of Transportation and DFCM for various capital projects.

The State traditionally issues bonds each year and may issue some or all of the additional $52.3 million in aggregate principal amount of authorized and unissued general obligation bonds.

Outstanding General Obligation Indebtedness

The State has issued general obligation bonds for general administrative buildings, higher education buildings, highways, water and wastewater facilities, flood control facilities, technology, and refunding purposes. As of the date indicated, the State expects to have the following principal amounts of general obligation debt outstanding:

Series (1)	Purpose	Original Principal Amount	Final Maturity Date	Current Principal Outstanding (10)
2004B (2)	Various purpose	$140,635,000	July 1, 2019	$ 126,280,000
2004A (3)	Refunding	314,775,000	July 1, 2016	314,775,000
2003A (4)	Various purpose	407,405,000	July 1, 2013 (8)	314,025,000
2002B (5)	Refunding	253,100,000	July 1, 2012	250,860,000
2002A (6)	Various purpose	281,200,000	July 1, 2011 (8)	122,250,000
2001B (5) (6)	Various purpose	348,000,000	July 1, 2009 (8)	141,675,000
1998A (5) (7)	Various purpose	265,000,000	July 1, 2008 (9)	53,250,000
1997F (5) (7)	Highway projects	205,000,000	July 1, 2007 (9)	33,850,000
1997E (5) (7)	Highway projects	135,000,000	July 1, 2007 (9)	20,425,000
Total Principal Amount of outstanding General Obligation Debt (11)				$1,377,390,000

(1) Unless otherwise indicated, the outstanding general obligation bonds of the State are currently rated “AAA” by Fitch Inc. (“Fitch”); “Aaa” by Moody’s; and “AAA” by S&P, as of the date of this OFFICIAL STATEMENT.
(2) As of January 19, 2006, $47,050,000 of these bonds are exempt from statutory debt limit calculations.
(3) As of January 19, 2006, $125,315,000 of these bonds are exempt from statutory debt limit calculations.
(4) Portions of this bond issue were refunded by the 2004A General Obligation Bonds. As of January 19, 2006, $174,100,000 of these bonds are exempt from statutory debt limit calculations.
(5) These bonds are exempt from statutory debt limit calculations.
(6) Portions of this bond issue were refunded by the 2004A General Obligation Bonds.
(7) Portions of these bond issues were refunded by the 2002B General Obligation Bonds.
(8) Final maturity date of the outstanding portions of this bond issue after the refunding effected by the 2004A General Obligation Bonds.
(9) Final maturity date of the outstanding portions of these bond issues after the refunding effected by the 2002B General Obligation Bonds.
(10) As of January 19, 2006, the scheduled issuance date for the 2006A Bonds.
(11) For accounting purposes, the outstanding debt as shown above must be increased by the premium associated with debt issued and reduced by deferred amounts on refundings that are reported in the long–term debt notes of the State’s financial statements. Thus, for accounting purposes, the total unamortized bond premium as of January 19, 2006 (the expected closing date of the 2006A Bonds) is $87,080,860 and the total deferred amount is $21,436,752, resulting in total outstanding net direct debt of $1,443,034,109.

(Source: Division of Finance.)

Debt Service Schedule Of Outstanding General Obligation Bonds By Fiscal Year (1)

Fiscal Year Ending June 30	Series 2004B $140,635,000 Principal	Interest	Series 2004A $314,775,000 Principal	Interest	Series 2003A $407,405,000 Principal	Interest	Series 2002B $253,100,000 Principal	Interest
2006………	$ 14,355,000	$ 6,654,931	$ 0	$ 14,937,350	$ 1,095,000	$14,813,575	$ 205,000	$ 13,368,331
2007………	7,785,000	6,119,375	0	14,937,350	7,775,000	14,608,250	160,000	13,362,856
2008………	6,865,000	5,753,125	0	14,937,350	12,825,000	14,093,250	120,000	13,358,656
2009………	9,970,000	5,332,250	0	14,937,350	59,300,000	12,586,625	29,455,000	12,583,663
2010………	11,180,000	4,803,500	0	14,937,350	61,125,000	10,025,313	50,835,000	10,481,778
2011………	25,755,000	3,880,125	39,310,000	14,151,150	50,025,000	7,399,375	53,670,000	7,710,706
2012………	30,600,000	2,471,250	40,830,000	12,548,350	15,100,000	5,771,250	56,705,000	4,744,378
2013………	3,575,000	1,616,875	11,245,000	11,450,625	52,575,000	4,079,375	59,915,000	1,610,216
2014………	3,750,000	1,433,750	18,480,000	10,707,500	55,300,000	1,382,500	–	–
2015………	3,950,000	1,241,250	73,595,000	8,405,625	0	0 (2)	–	–
2016………	4,125,000	1,039,375	73,910,000	4,718,000	0	0 (2)	–	–
2017………	4,350,000	827,500	57,405,000	1,435,125	0	0 (2)	–	–
2018………	4,550,000	605,000	–	–	–	–	–	–
2019………	4,800,000	371,250	–	–	–	–	–	–
2020………	5,025,000	125,625	–	–	–	–	–	–
Totals……..	$140,635,000	$ 42,275,181	$314,775,000	$138,103,125	$315,120,000	$84,759,513	$ 251,065,000	$ 77,220,584

Fiscal Year Ending June 30	Series 2002A $281,200,000 Principal	Interest	Series 2001B $348,000,000 Principal	Interest	Series 1998A $265,000,000 Principal	Interest	Series 1997F $205,000,000 Principal	Interest
2006………	$ 45,740,000	$ 7,271,813	$ 34,900,000	$ 7,160,625	$ 15,850,000	$ 3,058,750	$ 15,625,000	$ 2,291,438
2007………	48,075,000	4,926,438	33,250,000	5,627,250	16,775,000	2,243,125	16,475,000	1,408,688
2008………	50,575,000	2,460,188	34,650,000	4,099,500	17,750,000	1,380,000	17,375,000	477,813
2009………	5,525,000	1,057,688	36,125,000	2,507,063	18,725,000	468,125	0	0 (4)
2010………	5,750,000	775,813	37,650,000	847,125	0	0 (4)	0	0 (4)
2011………	6,000,000	482,063	0	0 (2)	0	0 (4)	0	0 (4)
2012………	6,325,000	166,031	0	0 (2)	0	0 (4)	0	0 (4)
2013………	0	0 (3)	0	0 (2)	0	0 (4)	0	0 (4)
2014………	0	0 (2)	0	0 (2)	–	–	–	–
2015………	0	0 (2)	0	0 (2)	–	–	–	–
2016………	0	0 (2)	–	–	–	–	–	–
2017………	–	–	–	–	–	–	–	–
2018………	–	–	–	–	–	–	–	–
2019………	–	–	–	–	–	–	–	–
2020………	–	–	–	–	–	–	–	–
Totals……..	$167,990,000	$ 17,140,031	$176,575,000	$ 20,241,563	$ 69,100,000	$ 7,150,000	$ 49,475,000	$ 4,177,939

Fiscal Year Ending June 30	Series 1997A $135,000,000 Principal	Interest	Totals (1) Total Principal	Total Interest	Total Debt Service
2006………	$ 9,350,000	$ 1,380,500 (5)	$ 137,120,000	$ 70,937,313	$ 208,057,313
2007………	9,925,000	850,438 (6)	140,220,000	64,083,769	204,303,769
2008………	10,500,000	288,750 (7)	150,660,000	56,848,632	207,508,632
2009………	0	0 (4)	159,100,000	49,472,763	208,572,763
2010………	0	0 (4)	166,540,000	41,870,878	208,410,878
2011………	0	0 (4)	174,760,000	33,623,419	208,383,419
2012………	0	0 (4)	149,560,000	25,701,259	175,261,259
2013………	0	0 (4)	127,310,000	18,757,091	146,067,091
2014………	–	–	77,530,000	13,523,750	91,053,750
2015………	–	–	77,545,000	9,646,875	87,191,875
2016………	–	–	78,035,000	5,757,375	83,792,375
2017………	–	–	61,755,000	2,262,625	64,017,625
2018………	–	–	4,550,000	605,000	5,155,000
2019………	–	–	4,800,000	371,250	5,171,250
2020………	–	–	5,025,000	125,625	5,150,625
Totals……..	$ 29,775,000	$ 2,519,688	$1,514,510,000	$ 393,587,623	$ 1,908,097,623

(1) This table reflects the State's debt service schedule for its outstanding general obligation bonds for the fiscal year shown. This information is based on payments (cash basis) falling due in that particular fiscal year.
(2) Principal and interest has been refunded by the 2004A General Obligation Bonds.
(3) There was no scheduled principal maturity in this fiscal year.
(4) Principal and interest has been refunded by the 2002B General Obligation Bonds.
(5) $850,000 (of the original maturity of $10,200,000) has been refunded by the 2002B General Obligation Bonds.
(6) $850,000 (of the original maturity of $10,775,000) has been refunded by the 2002B General Obligation Bonds.
(7) $850,000 (of the original maturity of $11,350,000) has been refunded by the 2002B General Obligation Bonds.

(Source: Financial Advisor.)

The following tables show the ratios of the principal par amounts of the State's general obligation debt (excludes any additional principal amounts attributable to unamortized original issue bond premium and deferred amount on refunding), to population, total personal income, taxable value and fair market/market value for the fiscal years shown and estimated as of January 19, 2006 (which is the proposed closing date of the 2006A Bonds).

	Fiscal Year Ended June 30				
	2005	2004	2003	2002	2001
Outstanding General Obligation Debt (000's) (1)	$1,514,510	$1,510,160	$1,623,680	$1,474,400	$1,146,000
Debt Ratios:					
Per Capita	$595	$612	$673	$625	$497
As % of Total Personal Income	2.18%	2.35%	2.69%	2.53%	2.02%
As % of Taxable Value	1.14%	1.23%	1.38%	1.29%	1.04%
As % of Fair Market/Market Value	0.82%	0.87%	0.99%	0.92%	0.75%

	Estimated As of January 19, 2006 (2)
Outstanding General Obligation Debt (1)	$1,377,390,000
Debt Ratios:	
Per Capita	$541
As % of Total Personal Income	1.98%
As % of Taxable Value	1.04%
As % of Fair Market Value/Market Value	0.74%

(1) Excludes any additional principal amounts attributable to unamortized original issue bond premium and deferred amount on refunding.
(2) Information as of January 19, 2006 (Fiscal Year 2006) is preliminary and subject to change.

(Source: Division of Finance and the Financial Advisor.)

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The ratios of debt service expenditures to General Fund expenditures and to all governmental fund type expenditures for the last five fiscal years are shown below:

	Fiscal Year Ended June 30 (in thousands)				
	2005	2004	2003	2002	2001
General Fund Expenditures	$4,016,667	$3,775,296	$3,519,422	$3,412,413	$3,088,090
Debt Service Expenditures (1)	$273,679	$211,960	$189,020	$175,188	$158,886
Ratio of Debt Service to General Fund Expenditures	6.81%	5.61%	5.37%	5.13%	5.15%
Total All Governmental Funds Expenditures (2)	$7,489,813	$7,074,833	$6,702,566	$6,597,787	$6,233,721
Ratio of Debt Service Expenditures to All Governmental Fund Expenditures	3.65%	3.00%	2.82%	2.66%	2.55%

(1) During Fiscal Year 2005, debt service increased from the prior year due to a final debt payment of $31,585,000 (for 2002 Winter Olympic facilities).

(2) Beginning in Fiscal Year 2002, all Governmental Funds include expenditures of the State's governmental funds (except the Trust Lands permanent fund). The State implemented Statement 34 of the Governmental Accounting Standards Board ("GASB") in Fiscal Year 2002. The new financial reporting requirements of Statement 34 impacted the way certain funds were classified and reported. As a result, the comparability between Fiscal Years 2005 through 2002 expenditure amounts and the related ratios to Fiscal Year 2001 is affected.

(Sources: Division of Finance and the Fiscal Year Ended June 30, 2005 Comprehensive Annual Financial Report (the "2005 CAFR").)

The 2006A Bonds are not General Obligations

Neither the 2006A Bonds nor the Lease will constitute general obligations of the State or the Authority. See "INTRODUCTION—Security; Cross Collateralization" and "—Risks Inherent In The Ownership Of The 2006A Bonds–Limited Obligations" above.

Lease Obligations

The State leases office buildings, other real property, office and computer equipment. Although the lease terms vary, most leases are subject to annual appropriations from the Legislature to continue the lease obligations. If a legislative appropriation is reasonably assured, long–term leases are considered noncancellable for financial reporting purposes. Leases that in substance are purchases are reported as capital lease obligations in the government–wide financial statements and proprietary fund statements in the State's Comprehensive Annual Financial Report ("CAFR").

Operating leases (leases of assets not recorded on the Balance Sheet) contain various renewal obligations as well as some purchase options. However, due to the nature of the leases, the related assets are not classified as capital assets. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when paid or incurred.

The total operating lease expenditures for Fiscal Years 2005 and 2004 were approximately $25.3 million and $24.7 million, respectively, for the primary government, and $18.6 million and $16.6 million, respectively, for component units. For a detailed report and description of operating and capital leases see "APPENDIX A—BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY IN-

FORMATION OF THE STATE OF UTAH FOR FISCAL YEAR 2005—Notes to the Financial Statements, Note 9. Lease Commitments."

Revenue Bonds And Notes

Various State agencies have outstanding bonds and notes payable solely from certain specified revenues. None of these bond or note issues are general obligations of the State and, therefore, such bonds or notes are not applied against the general obligation borrowing capacity of the State.

The majority of the State's revenue bonds and notes are issued by the Utah Housing Corporation (formerly known as the Utah Housing Finance Agency), the State Board of Regents (student loans and various capital projects), and the Authority. Current information regarding such revenue bonds and notes is provided below.

For a detailed report and description of the various revenue bonds and notes see "APPENDIX A—BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION OF THE STATE OF UTAH FOR FISCAL YEAR 2005—Notes to the Financial Statements, Note 10. Long–Term Liabilities."

Covenant Regarding Legislative Appropriations; "Moral Obligation Bonds"

The statutes under which the Utah Housing Corporation, the State Board of Regents and the Utah Communications Agency Network are organized require the head of each agency to certify to the Governor on or before December 1 of each year the amount, if any, necessary to restore any capital reserve or debt service reserve fund established by the agency to its required amount. In the case of revenue bonds issued to finance a capital project for an institution of higher education, the chairman of the State Board of Regents may also certify to the Governor on or before December 1 of each year any projected shortfall in the revenues necessary to make debt service payments in the forthcoming calendar year.

In each case upon receipt of such a certification, the Governor may then request from the Legislature an appropriation of the amount so certified. The Governor is not required to request an appropriation from the Legislature and the Legislature is under no obligation to make any appropriation requested by the Governor. Bonds issued under the covenant to "restore any capital reserve or debt service reserve funds" are referred to herein as "*State Moral Obligation Bonds*."

The amounts of State Moral Obligation Bonds outstanding are set forth below.

Utah Housing Corporation. The Utah Housing Corporation currently has outstanding approximately $1.75 billion of single family and multifamily housing revenue bonds, *approximately $4 million of which are State Moral Obligation Bonds*. These revenue bonds were issued to provide funds to the Utah Housing Corporation and are secured by and payable from payments on loans payable to and assets of the Utah Housing Corporation.

State Board of Regents. The State Board of Regents currently has approximately $1.72 billion of student loan revenue bonds outstanding, *all of which are State Moral Obligation Bonds*. The State Board of Regents has two series of revenue bonds (for office space) outstanding in the amount of approximately $10.8 million, which were issued as State Moral Obligation Bonds. In addition, the State Board of Regents has outstanding approximately $406.4 million of revenue bonds issued to finance capital projects at the State's institutions of higher education, *approximately $333.7 million of which are State Moral Obligation Bonds*. The student loan revenue bonds are issued to provide funds to the State's Student Loan Program and are secured by and payable from payment on student loans purchased by the State Board of Regents. In addition certain revenue bonds issued by individual colleges and universities are secured by and payable from student building fees, housing fees, grant fees, etc.

Utah Communications Agency Network. The Utah Communications Agency Network (an independent State agency) ("UCAN") has \$9.8 million of refunding revenue bonds outstanding, *all of which are State Moral Obligation Bonds*. These bonds are secured by and payable from revenues derived from operation of an emergency communication system. See "APPENDIX A—BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION OF THE STATE OF UTAH FOR FISCAL YEAR 2005—Notes to the Financial Statements, Note 15. Joint Venture."

The Utah Housing Corporation and the State Board of Regents also have issued, and may issue in the future, bonds that are not State Moral Obligation Bonds of the State. However, these agencies may seek legislative appropriations to cover budget shortfalls, and such appropriations, if made, would be a draw on State revenues.

State Guaranty Of General Obligation School Bonds

Under the Utah School Bond Guaranty Act (the "Guaranty Act") which took effect on January 1, 1997, the full faith and credit, and unlimited taxing power of the State is pledged to guaranty full and timely payment of the principal of and interest on general obligation bonds ("Guarantied Bonds") issued by qualifying boards of education of Utah school districts ("Qualifying School Board"). The primary purpose of the Guaranty Act is to reduce borrowing costs for a Qualifying School Board by providing credit enhancement for Guarantied Bonds.

The State guaranty is extended by the State Treasurer to a Qualifying School Board after a review of the application and a recommendation for the guaranty by the State Superintendent of Public Instruction. The State Treasurer has the authority to withhold any guaranty or to terminate the issuance of future guaranties at any time. Determinations of future ineligibility do not reverse or remove prior State guaranties.

In the event a Qualifying School Board is unable to make the scheduled debt service payments on its Guarantied Bonds, the State is required to make such payments in a timely manner. For this purpose, the State may (a) use any of its available moneys, (b) seek a short–term loan from the Permanent School Fund (although the Fund is not required to make such loan) or (c) issue its short–term general obligation notes. The Qualifying School Board remains liable to the State for any such payments on Guarantied Bonds.

The State may seek reimbursement for such payments (plus interest and penalties) by intercepting State financial aid intended for the Qualifying School Board. See "FINANCIAL INFORMATION REGARDING THE STATE OF UTAH—Property Tax Matters" below. The Guaranty Act also contains provisions to compel the Qualifying School Board to levy a tax sufficient to reimburse the State for such payments and to provide oversight to assure that the Qualifying School Board will ultimately be responsible for payment of debt service on the Guarantied Bonds.

The State Superintendent of Public Instruction is charged by the Guaranty Act with the responsibility of monitoring the financial affairs, condition, and solvency of each local school board in the State and reporting, at least annually, its conclusions to the Governor, the Legislature and the State Treasurer. The State Superintendent must report immediately to the Governor and the State Treasurer any circumstances suggesting that a local school board will be unable to pay when due its debt service obligations and recommend a course of remedial action.

As of the date of this OFFICIAL STATEMENT, the State has not been requested to make payments on any Guarantied Bonds under the provisions of the Guaranty Act. The State does not expect that it will be required to advance moneys for the payment of debt service on Guarantied Bonds in the foreseeable future. In the event the State is required to make such an advance and sufficient moneys are not available, the Guaranty Act provides that the State may issue its general obligation notes on an expedited basis in an amount sufficient to make the necessary payment plus costs of issuance. The payments of principal of and interest on such notes from taxes or other identified State revenues are secured by a pledge of the full faith, credit, and resources of the State. The Guaranty Act also provides that such notes do not constitute debt of the State for purposes of the debt limitation of the Utah Constitution.

During Fiscal Year 2006, the State will have at least $1.79 billion principal amount of Guarantied Bonds outstanding. The State cannot predict the amount of bonds that may be guarantied in this year or in future years; no limitation is currently imposed by the Guaranty Act.

No Defaulted Bonds

The State has never failed to pay when due the principal of and interest on its bonded indebtedness and other payment obligations related thereto.

FINANCIAL INFORMATION REGARDING THE STATE OF UTAH

Generally

The following table summarizes the State's revenues and expenditures for Fiscal Years 2005, 2004 and 2003:

Revenues and Expenditures for Fiscal Years 2005, 2004 and 2003

Analysis of Operations—General Fund and Major Special Revenue Funds (1)

	Fiscal Year Ending June 30, 2005		Fiscal Year Ending June 30, 2004		Fiscal Year Ending June 30, 2003	
	Amounts (in thousands)	% Change From Prior Year	Amounts (in thousands)	% Change From Prior Year	Amounts (in thousands)	% Change From Prior Year
Revenues (1)						
Federal revenues	$2,362,803	3%	$2,292,046	12%	$2,046,399	11%
Individual and corporate income taxes	2,155,897	15	1,872,667	7	1,748,649	2
Sales tax	1,699,636	9	1,553,909	5	1,481,823	1
Motor/special fuel taxes	336,417	3	327,838	2	321,370	0
Other taxes	271,264	18	230,558	9	210,992	6
Liquor profits	38,067	3	37,127	12	33,063	2
Other	694,233	12	620,288	13	546,632	1
Total	$7,558,317	9%	$6,934,433	9%	$6,388,928	4%
Expenditures	$7,017,202	6%	$6,623,877	6%	$6,255,022	0%

(1) Includes revenues and expenditures for the General Fund and the Major Special Revenue Funds (Uniform School Fund, Transportation Fund, and Centennial Highway Fund).

(Source: Division of Finance and the 2005 CAFR.)

Recent Developments

Background

The State has two major funds to pay for most government operations, the General Fund and the Uniform School Fund. By law, the Uniform School Fund can only be used for public education (kindergarten through 12th grade) and higher education (State colleges, universities and technical schools). The General Fund holds money for most other State functions except transportation, which has its own funds.

Spending and Debt Limitations

The State has statutory appropriation and debt limits. Increases in appropriations are limited to combined changes in population and inflation. The definition of appropriations includes only appropriations from unrestricted General Fund sources and from non–Uniform School Fund income tax revenues (spending for public education and transportation were exempted from the limitation). All other State services, including higher education, that receive General Fund appropriations are subject to the limitation. The statutory debt limit is 45% of the maximum allowable appropriation limit. See "Debt Structure Of The State Of Utah—Legal Borrowing Authority–Statutory General Obligation Debt Limit" above.

Budget Management

The State ended Fiscal Year 2005 with a surplus of $171.9 million. This included a $63.8 million surplus in the General Fund and $108.1 million surplus in the Uniform School Fund. Higher than expected sales and use tax and individual income tax revenues were the primary reasons for the surplus. By law, $31.9 million, or 50% of the $63.8 million General Fund surplus was transferred to the Rainy Day Fund (defined below), $3.3 million was designated for accrued Industrial Assistance Fund credits, and $4 million was appropriated for Fiscal Year 2006 for travel and tourism. The remaining $24.6 million was carried forward for appropriation in Fiscal Year 2006.

By law, $27 million, or 25% of the $108.1 million Uniform School Fund Fiscal Year 2005 surplus was transferred to the Education Reserve (defined below). The remaining $81.1 million was carried forward for appropriation in Fiscal Year 2006.

A balanced Fiscal Year 2006 budget was approved by the Legislature in the 2005 Legislative General Session. State revenues were projected to increase 3.5%, or $139 million, above authorized Fiscal Year 2005. The Legislature was able to approve major increases in transportation, Medicaid, public education, higher education, and health, dental and retirement rates. In addition, it provided a cost–of–living and market comparability adjustment for state employees.

Budget Reserve Accounts

The State maintains a Budget Reserve Account in the General Fund (referred to herein as the "Rainy Day Fund") which can only be used to cover operating deficits, legal settlement agreements approved by the Legislature or retroactive tax refunds. State law requires 25% of any General Fund surplus to be deposited in the Rainy Day Fund. The 2002 Legislature passed legislation providing for the replenishment of the Rainy Day Fund by annually transferring an additional 25% to the Rainy Day Fund (total of 50%) of any General Fund surplus until any previous appropriations from the Rainy Day Fund have been repaid.

The 2005 Legislature appropriated $10.3 million of one–time money to the Rainy Day Fund for Fiscal Year 2005. In addition, the 2004 Legislature reallocated 30% of the tobacco settlement payments received between July 1, 2004 and July 1, 2005 from the tobacco settlement funds to the Rainy Day Fund. This added approximately $8 million to the Rainy Day Fund in Fiscal Year 2005. See in this section "Financial Settlement with the Tobacco Industry" below.

The current balance in the Rainy Day Fund is approximately $107 million.

The Education Budget Reserve Account (the "Education Reserve") was established in 2003 in addition to the Rainy Day Fund. The Education Reserve is a reserve to cover operating deficits that may occur in the public and higher education systems. The Education Reserve is to receive 25% of any surplus in the Uniform School Fund at the end of each fiscal year. The 2005 Legislature appropriated $24 million of one–time money to the Rainy Day Fund for Fiscal Year 2006.

The current balance in the Education Reserve is approximately $65 million.

The Legislature also established a ceiling on the combined balances of the Rainy Day Fund and the Education Reserve equal to 6% of the combined total of appropriations for all purposes from the General Fund and the Uniform School Fund. The current combined ceiling is approximately $238.7 million.

Other Post Employment Benefits

GASB issued Statement 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Additionally GASB issued Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. GASB Statements 43 and 45, which are effective for the State's fiscal years beginning July 1, 2006 and 2007, respectively, will require that the long-term cost of retirement health care and other non pension benefits provided after employment to retired employees be determined on an actuarial basis and reported similar to pension plans.

The State has allowed employees, upon retirement, to convert eight hours of accrued sick leave into one month's paid health care premium. This conversion was subject to certain mandatory adjustments. The 2005 Legislature passed House Bill 213, Unused Sick Leave at Retirement Amendments that in part, changes how sick leave hours may be used after retirement. Beginning January 1, 2006, upon retirement, 25% of all unused accumulated sick leave, shall be contributed to a 401(k) defined contribution plan (subject to Internal Revenue Service deferral limits). Each day of any remaining sick leave earned prior to January 1, 2006, may continue to be converted for one month's paid health care premium. Any remaining sick leave earned January 1, 2006 or after is contributed to a medical reimbursement account at the employee's rate of pay at the time of retirement, but not less than the average rate of pay for employees who retired during the previous calendar year. In addition, State paid health and life insurance coverage, available up to five years to employees who retire prior to age 65, will phase out over the next five years.

In 2005, the State retained an actuary to determine the Unfunded Actuarial Accrued Liability and the Annual Required Contribution for the State. As of December 31 2004, the preliminary estimate of the liability is $536 million if the State begins funding the liability upon transition to the new GASB standard. The preliminary annual required contribution is $51.4 million. Of this amount, the State is already paying approximately $21 million on a pay–as–you–go basis for current retirees' health benefits. If the State chooses to pay for the liability on a pay–as–you–go basis rather than fund the liability, the preliminary estimate of the liability is $827.9 million.

At this time, the State has not determined whether or not it will fund the liability. The Governor has recommended funding the annual liability in his Fiscal Year 2007 budget recommendations. The 2006 Legislature will make its decision during the upcoming legislative session.

Highway Programs

In 1998, the State began a plan to construct and improve various highways throughout the State (the "Centennial Highway Program"). The current estimated cost of the planned projects through Fiscal Year 2008 is approximately $3.38 billion. At the end of Fiscal Year 2005, $2.66 billion has been spent.

The largest component of the plan was the reconstruction and expansion of the main interstate highway ("I–15") running through the Salt Lake County metropolitan area. The I–15 project was completed in July 2001 at a cost of $1.56 billion. The other projects within the Centennial Highway Program are in various stages of planning and construction.

Because the construction schedule for the Centennial Highway Program requires the expenditure of moneys faster than funds will be collected, it has been and will be necessary for the State to borrow money to finance the program. To date, various sessions of the Legislature have authorized the issuance of approximately $1.35 billion of highway general obligation bonds, most of which have been issued.

To pay for the $3.38 billion cost of the Centennial Highway Program, the State is using $1.53 billion from the State's General Fund**,** with the balance coming from fuel taxes, registration fees, federal funds and other sources.

The 2005 Legislature created the Transportation Investment Fund of 2005, effective July 1, 2005, to pay the costs of maintenance, reconstruction or renovation to state and federal highways. The Centennial Highway Program was designated as a restricted account within the Transportation Fund of 2005. Revenue sources dedicated to the Centennial Highway Program will be transferred to the Transportation Investment Fund of 2005 when the projects are completed and the highway general obligation bonds are paid off in the Centennial Highway Program.

The Centennial Highway Program is in addition to the regular five–year highway construction, repair and maintenance program of the Utah Department of Transportation. This five–year highway program is primarily funded from fuel taxes, registration fees, federal funds and other sources. Approximately $100 million is spent on this five–year highway program each year.

Financial Settlement with the Tobacco Industry

The State was one of 46 states that entered into a master settlement agreement with major tobacco manufacturing companies in November 1998. The State anticipates receiving settlement payments averaging nearly $26 million per year until Fiscal Year 2008 when "strategic payments" begin. (Strategic payments refer to added payments to the State as a result of its participation as a plaintiff in the lawsuits against the tobacco companies.) However, the settlement payments are subject to a number of adjustments which may substantially reduce or increase the amount the State will ultimately receive and the ability of the tobacco companies to pay such settlement payments.

In 2000, State voters approved an amendment to the State Constitution to establish a permanent State trust fund to hold a portion of the tobacco settlement payments and to provide procedures for the disposition of those payments and assets of the trust. The constitutional amendment provides, in effect, that the settlement payments are to be appropriated by the Legislature (in all cases, the Governor must concur with the actions of the Legislature) and that the assets in the trust fund cannot be appropriated except by a three–fourths vote of both houses of the Legislature. However, income from the trust fund is to be deposited into the General Fund and half of the trust fund income is available for appropriation by the Legislature.

The 2000 Legislature allocated 50% of the tobacco settlement payments to the trust fund, with the remaining 50% of the settlement payments allocated to certain health–related programs including children's health, cancer research and treatment, and smoking prevention and cessation. The 2004 Legislature adjusted the allocation formulas. For Fiscal Year 2005, 70% of the settlement payments are allocated to the health–related programs and the remaining 30% of the settlement payment is allocated to the Rainy Day Fund. For Fiscal Years 2006 and 2007, 75% of the settlement payments are allocated to the health–related programs and the remaining 25% is allocated to the trust fund. Beginning in Fiscal Year 2008, 60% of the settlement payment is allocated to the health–related programs and 40% of the payment is allocated to the trust fund.

The current balance in the trust fund is approximately $18.1 million.

The State has not issued and does not plan to issue tobacco securitization bonds.

Future Considerations

Tax Reform

In 2004, the Legislature established a task force to study the State's individual income tax and corporate franchise and income taxes. In November 2004, then Governor Olene Walker issued a report highlighting problems with the State's existing revenue portfolio and made 16 recommendations to address the then–declining tax base. As part of his campaign, current Governor Huntsman highlighted tax reform as a way to improve the State's overall economic climate and to attract higher wage industries to the State.

In the 2005 General Session, the Legislature, the Governor and the Legislature established a task force to study tax reform and make appropriate recommendations. The task force, which consisted of four senators, 9 representatives, and two gubernatorial appointees, undertook to examine the major components of the State's tax structure and make recommendations to the Revenue and Taxation Interim Committee of the Legislature by November 2005. The task force adopted guidelines which included treating taxpayers in similar situations similarly, establishing the amount of revenue to be generated by taxes and creating a simple, stable, broad–based and responsive taxing system for the State. The tax force held more than 50 public hearings and meetings throughout the State to receive citizen feedback and, in November 2006, disbanded after submitting its recommendations, including, principally, a recommendation to remove the sales tax on food.

As the 2006 Legislative General Session approaches, tax reform appears to be one of the major issues confronting the Governor and the Legislature, including whether to adopt legislation repealing the tax on food, whether to extend the sales tax to professional or personal services, and whether to adopt a progressive income tax proposal.

No assurances can be given whether and, if so, in what form any such tax reform may be enacted, or the effect, if any, on the State's ability to conduct its operations and pay debt service on its bonds.

Management's Discussion And Analysis Of Financial Statements

The State prepared a narrative discussion, overview, and analysis of the financial activities of the State for Fiscal Year 2005. For the complete discussion see "APPENDIX A—BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION OF THE STATE OF UTAH FOR FISCAL YEAR 2005–Management's Discussion and Analysis" (after the Independent State Auditor's Report).

Five–Year Financial Summaries

The following summaries were extracted from the State's audited financial statements for Fiscal Years 2001 through 2005. The summaries have not been audited. The financial information presented in the summaries is presented on a fund statement basis and not on a government–wide statement basis.

Five–year historical summaries have been prepared for the Combined Balance Sheet—All Governmental Fund Types Only; Statement of Revenues, Expenditures and Changes in Fund Balance—General Fund; and Statement of Revenues, Expenditures and Changes in Fund Balance—Major Special Revenue Funds.

The five–year summary of Statement of Revenues, Expenditures and Changes in Fund Balance—Major Special Revenue Funds has been included to show the State's sources of revenue for and expenditures on public education and transportation.

Unless otherwise noted, the financial information for the Fiscal Years' prior to Fiscal Year 2002 have not been restated to reflect the changes in accounting standards.

State of Utah

Combined Balance Sheet—All Governmental Fund Types Only

(This summary is unaudited)

	As of June 30 (in thousands)				
	2005 (1)	2004 (1)	2003 (1)	2002 (1)	2001 (2)
Assets:					
Cash and cash equivalents	$ 932,620	$ 386,148	$ 505,731	$ 284,444	$ 586,836
Investments	521,982	711,950	648,211	785,121	313,565
Receivables:					
Accounts, net	464,291	626,266	598,616	485,522	523,415
Accrued taxes, net	693,516	586,076	524,670	581,065	548,537
Notes / mortgages, net (2)	13,265	9,458	12,297	13,355	280,350
Accrued interest (2)	123	55	111	32	1,952
Due from other funds	23,700	24,277	51,532	54,173	115,209
Due from component units	26,179	26,395	18,922	29,016	29,939
Interfund loans receivable	11,473	43,963	43,546	44,638	24,322
Inventories	32,533	9,496	7,537	8,894	8,728
Total assets	$ 2,719,682	$ 2,424,084	$ 2,411,173	$ 2,286,260	$ 2,432,853
Liabilities and fund balances:					
Liabilities:					
Accounts payable and accrued liabilities	$ 589,716	$ 536,089	$ 537,522	$ 510,618	$ 423,000
Due to other funds	28,151	26,569	40,171	65,469	98,126
Due to component units	1,503	8,013	4,812	–	359
Deferred revenue	319,938	390,140	320,381	279,983	392,194
Interfund loans payable	–	2,478	2,478	2,478	2,478
Leave/Postemployment benefits (3)	–	–	–	–	260,268
Total liabilities	939,308	963,289	905,364	858,548	1,176,425
Fund balances:					
Reserved	716,255	555,158	704,592	801,664	764,662
Unreserved designated	681,751	534,040	466,206	385,833	393,290
Unreserved undesignated	382,368	371,597	335,011	240,215	98,476
Total fund balances	1,780,374	1,460,795	1,505,809	1,427,712	1,256,428
Total liabilities and fund balances	$ 2,719,682	$ 2,424,084	$ 2,411,173	$ 2,286,260	$ 2,432,853

(1) Beginning in Fiscal Year 2002, this summary includes balances of the State's governmental funds (except the Trust Lands permanent fund). The State implemented GASB Statement 34 in Fiscal Year 2002. The new financial reporting requirements of Statement 34 impacted the way certain funds were classified and reported. As a result, the comparability between Fiscal Years 2005 through 2002 balances to Fiscal Year 2001 is affected.

(2) Decreases in these accounts, beginning in Fiscal Year 2002, are primarily due to the implementation of GASB Statement 34, which resulted in certain water loan funds and housing loan funds being reclassified from Governmental funds to Proprietary funds.

(3) Beginning in Fiscal Year 2002, Leave/Postemployment benefits liability and the related expenditure is no longer reported in the governmental fund statements as a result of additional guidance in GASB Interpretation 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

(Source: Division of Finance. Except as otherwise noted, this summary of financial information has been taken from the State's audited financial statements for the indicated years. This summary itself has not been audited.)

State of Utah

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Type — General Fund

(This summary is unaudited)

	Fiscal Year Ended June 30 (in thousands)				
	2005 (1)	2004 (1)	2003 (1)	2002 (1)	2001
Revenues:					
Taxes:					
Sales and use tax	$ 1,664,352	$ 1,521,076	$ 1,447,281	$ 1,437,339	$ 1,441,046
Other taxes	234,710	200,167	187,397	172,307	194,250
Total taxes	1,899,062	1,721,243	1,634,678	1,609,646	1,635,296
Other revenues:					
Federal contracts and grants	1,776,555	1,741,580	1,524,832	1,341,072	1,214,201
Charges for services	238,181	204,874	182,090	192,190	181,748
Licenses, permits and fees	17,866	18,029	17,745	17,721	16,963
Federal mineral lease	82,704	67,216	46,335	29,367	49,566
Investment income	16,483	6,897	8,258	15,333	45,468
Miscellaneous and other	148,015	143,033	124,422	114,449	74,325
Total revenues	4,178,866	3,902,872	3,538,360	3,319,778	3,217,567
Expenditures:					
Current:					
General government and courts	267,856	258,766	248,629	261,238	254,001
Human services and youth corrections	575,046	550,691	532,270	529,403	333,327
Corrections, adult	193,442	187,278	176,624	182,860	183,395
Public safety	161,350	146,974	122,830	147,728	120,454
Health and environmental quality	1,456,282	1,340,304	1,171,877	1,055,856	1,097,147
Higher education–state administration	39,121	32,827	34,891	42,155	36,118
Higher education–colleges and universities (2)	626,026	595,630	592,668	610,837	–
Employment and family services	415,892	394,304	362,931	321,154	286,304
Natural resources	120,398	119,909	132,388	119,383	104,859
Community and economic development	86,335	86,085	88,731	86,160	82,381
Business, labor, and agriculture	74,919	62,528	55,583	55,639	49,417
Leave/Postemployment benefits (3)	–	–	–	–	7,083
Total expenditures	4,016,667	3,775,296	3,519,422	3,412,413	2,554,486
Excess revenues over (under) expenditures	162,199	127,576	18,938	(92,635)	663,081
Other financing sources (uses):					
Proceeds of revenue bonds/contracts	–	–	–	–	1,602
Transfers in	294,313	178,900	146,547	223,529	268,793
Transfers out	(288,486)	(207,519)	(146,514)	(330,679)	(312,737)
Transfers from component units	–	–	–	–	526
Transfers to component units (2)	–	–	–	–	(537,279)
Total other financing sources (uses)	5,827	(28,619)	33	(107,150)	(579,095)
Net change in fund balances	168,026	98,957	18,971	(199,785)	83,986
Beginning fund balance	485,953	386,996	368,025	708,067	646,959
Adjustments to beginning fund balance (4)	–	–	–	(140,257)	–
Beginning fund balance as adjusted	485,953	386,996	368,025	567,810	646,959
Residual equity transfers	–	–	–	–	(22,878)
Ending fund balances	$ 653,979	$ 485,953	$ 386,996	$ 368,025	$ 708,067

(1) Due to changes in accounting standards, the comparability between Fiscal Years 2005 through 2002 to Fiscal Year 2001 is affected.

(2) State support of higher education—colleges and universities, starting in Fiscal Year 2002, is reported as a current expenditure under the GASB 34 reporting model. Previously, state support of higher education was shown as an operating transfer to components units for Fiscal Year 2001. These transfers to colleges and universities were substantially all of the operating transfers to component units.

(3) Beginning in Fiscal Year 2002, Leave/Postemployment benefits liability and the related expenditure is no longer reported in the governmental fund statements as a result of additional guidance in GASB Interpretation 6.

(4) Due primarily to changes in accounting standards.

(Source: Division of Finance. Except as otherwise noted, this summary of financial information has been taken from the State's audited financial statements for the indicated years. This summary itself has not been audited.)

State of Utah

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Type — Major Special Revenue Funds (1)

(This summary is unaudited)

	Fiscal Year Ended June 30 (in thousands)				
	2005 (2)	2004 (2)	2003 (2)	2002 (2)	2001
Revenues:					
Taxes:					
Sales and use tax	$ 35,284	$ 32,833	$ 34,542	$ 36,140	$ 24,255
Individual income tax	1,946,593	1,706,774	1,587,520	1,584,546	1,712,676
Corporate tax	209,304	165,893	161,129	124,561	183,141
Motor and special fuels tax	336,417	327,838	321,370	321,682	310,000
Other taxes (3)	36,554	30,391	23,595	26,131	(720)
Total taxes	2,564,152	2,263,729	2,128,156	2,093,060	2,229,352
Other revenues:					
Federal contracts and grants	586,248	550,466	521,567	505,838	493,862
Charges for services	26,975	27,399	22,465	23,438	35,461
Licenses, permits and fees	90,040	85,606	83,784	80,911	74,616
Federal aeronautics	34,416	25,821	18,791	31,026	33,386
Investment income	22,235	15,720	16,367	15,296	17,566
Miscellaneous and other	17,318	25,693	26,375	21,481	29,502
Total other revenues	777,232	730,705	689,349	677,990	684,393
Total revenues	3,341,384	2,994,434	2,817,505	2,771,050	2,913,745
Expenditures:					
Current:					
Public education	2,168,798	2,037,873	1,979,461	1,998,240	1,949,959
Transportation	831,737	810,708	756,139	847,517	877,653
Leave/Postemployment benefits (4)	–	–	–	–	2,103
Total expenditures	3,000,535	2,848,581	2,735,600	2,845,757	2,829,715
Excess revenues over (under) expenditures	340,849	145,853	81,905	(74,707)	84,030
Other financing sources (uses):					
Proceeds of revenue bonds/contracts	–	–	–	–	1,688
General obligation bonds issued	47,050	–	140,685	277,810	–
Premium on bonds issued	2,950	–	20,581	11,241	–
Transfers in	185,731	163,880	145,625	340,705	249,665
Transfers out	(535,939)	(331,345)	(228,262)	(369,293)	(460,906)
Total other financing sources (uses)	(300,208)	(167,465)	78,629	260,463	(209,553)
Net changes in fund balances	40,641	(21,612)	160,534	185,756	(125,523)
Beginning fund balance	757,418	779,030	618,496	377,980	503,503
Adjustments to beginning fund balance (5)	(1,066)	–	–	54,760	–
Beginning fund balance as adjusted	756,352	779,030	618,496	432,740	503,503
Ending fund balances	$ 796,993	$ 757,418	$ 779,030	$ 618,496	$ 377,980

(1) The major special revenue funds include the Uniform School Fund, Transportation Fund, and Centennial Highway Fund.
(2) Due to changes in accounting standards, the comparability between Fiscal Years 2005 through 2002 statements to Fiscal Year 2001 is affected.
(3) The negative revenue in Fiscal Year 2001 was a result of changes in the balance of receivables related to other taxes, that is, the accrued receivable balance related to other taxes at the end of Fiscal Year 2001 declined compared to the previous fiscal year and furthermore, the decline in the accrued receivable was greater than realized revenue.
(4) Beginning in Fiscal Year 2002, Leave/Postemployment benefits liability and the related expenditure is no longer reported in the governmental fund statements as a result of additional guidance in GASB Interpretation 6.
(5) Due primarily to changes in accounting standards.

(Source: Division of Finance. Except as otherwise noted, this summary of financial information has been taken from the State's audited financial statements for the indicated years. This summary itself has not been audited.)

Property Tax Matters

The following information with respect to certain property tax matters is included in this OFFICIAL STATEMENT to provide background information. As described herein, the 2006A Bonds are not secured by any pledge of property tax revenues and do not constitute a debt or indebtedness of the State or the Authority. See "INTRODUCTION—Risks Inherent In The Ownership Of The 2006A Bonds—Limited Obligations" above.

Ad Valorem Tax Levy

Though authorized to do so under Title 59, Chapter 2, Part 901 of the Utah Code, the State does not presently levy ad valorem property taxes. However, if the State does not have sufficient moneys available to pay principal and interest on its general obligation bonds from sources other than ad valorem taxes, the State Tax Commission would be required to levy ad valorem property taxes on all taxable property in the State to cover the deficit.

Property Tax Act

The Property Tax Act, Title 59, Chapter 2, of the Utah Code (the "Property Tax Act"), provides that all taxable property is required to be assessed and taxed at a uniform and equal rate on the basis of its "fair market value" as of January 1 of each year, unless otherwise provided by law. Pursuant to an exemption for residential property provided for under the Property Tax Act and Article XIII of the State Constitution, the "fair market value" of residential property is reduced by 45%. The residential exemption is limited to one acre of land per residential unit and to one primary residence per household, except that an owner of multiple residential properties may exempt his or her primary residence and each residential property that is the primary residence of a tenant.

The following tables reflect the effect of the current 45% reduction from Fair Market Value for assessment of ad valorem property tax. The tables also show the Centrally–Assessed Property (as defined below) compared with the Locally–Assessed Property (as defined below).

Taxable Value Compared with Fair Market Value of All Taxable Property in the State

Tax Year	Taxable Value (1)	% Change Over Prior Year	Fair Market Value	% Change Over Prior Year
2005 (2)	$132,283,252,974	7.4%	$185,528,783,516	7.2%
2004	123,210,372,102	5.0	173,003,833,163	5.1
2003	117,371,436,772	2.7	164,567,249,587	3.1
2002	114,320,788,860	3.6	159,659,350,270	4.2
2001	110,312,889,753	8.0	153,166,345,540	7.7
2000	102,142,249,398	7.4	142,253,454,117	7.7

(1) Taxable values were calculated by reducing the fair market value of primary residential property by 45%, representing the current partial property tax exemption for such property.
(2) Preliminary; subject to change.

(Source: Property Tax Division, Utah State Tax Commission.)

Historical Summaries Of Taxable Values Of Property

	2005		2004	2003	2002	2001
Set by State Tax Commission	(1) Taxable Value	% of T.V.	Taxable Value	Taxable Value	Taxable Value	Taxable Value
(Centrally Assessed)						
Natural resources……………………….	$ 4,900,000,000	3.7 %	$ 4,211,778,705	$ 3,002,785,404	$ 3,336,164,284	$ 4,067,175,485
Utilities…………………………………	9,333,848,414	7.1	9,509,472,931	9,742,802,798	9,380,729,030	10,075,002,458
Total centrally assessed…………..	14,233,848,414	10.8	13,721,251,636	12,745,588,202	12,716,893,314	14,142,177,943
Set by County Assessor						
(Locally Assessed)						
Real property:						
Primary residential…………………….	64,867,870,662	49.0	60,635,462,669	57,428,781,528	55,154,680,220	52,099,359,175
Commercial…………………..................	27,000,000,000	20.4	25,204,539,225	25,995,762,668	25,524,121,711	23,831,287,399
Other real………………………………	18,475,000,000	14.0	15,622,104,219	12,900,782,786	12,346,922,189	11,787,529,050
Total real property…………………	110,342,870,662	83.4	101,462,106,113	96,325,326,982	93,025,724,120	87,718,175,624
Personal property:						
Total personal property……………	7,706,533,898	5.8	8,027,014,353	8,300,521,588	8,578,171,426	8,452,536,186
Total locally assessed………………	118,049,404,560	89.2	109,489,120,466	104,625,848,570	101,603,895,546	96,170,711,810
Total taxable value…………………	$ 132,283,252,974	100.0 %	$ 123,210,372,102	$ 117,371,436,772	$ 114,320,788,860	$ 110,312,889,753

(1) Preliminary; subject to change. Information is rounded as necessary.

(Source: Property Tax Division, Utah State Tax Commission.)

The Property Tax Act provides that the State Tax Commission shall assess certain types of property ("Centrally–Assessed Property"), including (i) properties that operate as a unit across county lines that must be apportioned among more than one county or state, (ii) public utility (including railroad) properties, (iii) airline operating properties, (iv) geothermal properties and (v) mines, mining claims and appurtenant machinery, facilities and improvements, including oil and gas properties. All other taxable property ("Locally–Assessed Property") is required to be assessed by the county assessor of the county in which such Locally–Assessed Property is located. The Property Tax Act also establishes certain deadlines, procedures and requirements for, among other things, the assessment of Centrally–Assessed Property, and the challenging by property owners of such assessments. Once the required information is provided to the various county treasurers, they mail all property owners a tax notice that specifies the aggregate amount of taxes to be paid for State, county, city, town, school and other purposes.

Minimum Basic Tax Levy for School Districts. Before June 15, the State Tax Commission ascertains from the State Board of Education the number of weighted pupil units in each school district in the State for the school year commencing July 1 of the current year, estimated according to the Minimum School Program Act, and the money necessary for the cost of operation and maintenance of the Minimum School Program of the State. The State Tax Commission then estimates the amounts of all surpluses in the Uniform School Fund, as of July 1, of the current year, available for the operation and maintenance of the program, and estimates the anticipated income to the fund available for those purposes from all sources, including revenues from taxes on income or from taxes on intangible property.

The State Tax Commission then determines for each school district the amount to be raised by the minimum basic tax levied by the school district as its contribution toward the cost of the Basic State–Supported School Program (the "Basic Program"), as required by the Minimum School Program Act. If the levy raises an amount in excess of the total Basic Program for a school district, the excess amount shall be remitted by the school district to the State Board of Education to be credited to the Uniform School Fund for allocation to school districts to support the Basic Program. If the levy does not raise an amount in excess of the total Basic Program for a school district, then the difference between the amount which the local levy will raise within the school district, and the total cost of the Basic Program within the school district shall be computed. This difference shall be apportioned from the Uniform School Fund to each school district as the contribution of the State to the Basic Program for the school district.

The State mandates that each school district levy a minimum basic tax rate per dollar of taxable value, which changes annually, in order to qualify for receipt of the State contribution toward the Basic Program. If the minimum basic tax rate exceeds the certified revenue levy, the State shall publish a notice to the effect no later than 10 days after the last day of the annual legislative general session. "Certified Revenue Levy" means a property tax levy that provides the same amount of ad valorem property tax revenue as was collected for the prior year, plus new growth, but exclusive of revenue from collections from redemptions, interest, and penalties.

Uniform Fees. An annual statewide uniform fee is levied on certain tangible personal property in lieu of the ad valorem tax. The uniform fee is based on the value of motor vehicles, watercraft, recreational vehicles, and all other tangible personal property required to be registered with the State. The current uniform fee is equal to 1.5% of the fair market value of motor vehicles that weigh 12,001 pounds or more, watercraft, recreational vehicles and all other tangible personal property required to be registered with the State excluding exempt property such as aircraft and property subject to the fixed age–based fee. Motor vehicles weighing 12,000 pounds or less are subject to an age–based fee that is due each time the vehicle is registered. The age–based fees is for passenger type vehicles and ranges from $10 to $150 based on the age of the vehicle.

Property Tax Valuation Agency Fund. Commencing January 1, 1994, the State created the Property Tax Valuation Agency Fund (the "PTVAF"), to be funded by a multicounty assessing and collecting levy to promote the accurate valuation of property, the establishment and maintenance of uniform assessment levels within and among counties, and the efficient administration of the property tax system, including the costs of assessment, collection and distribution of property taxes. Money is disbursed from the PTVAF to each county based on statutory qualification and requirements.

The Legislature is required to authorize a multicounty assessing and collecting levy to fund the PTVAF that may not exceed (unless it provides public notice thereof) the certified revenue levy.

Budgetary Procedures

Budgetary Procedures Act. The Budgetary Procedures Act, Title 63, Chapter 38, Utah Code (the "Budget Act") establishes the process through which the State budget is prepared by the Governor and prescribes all information to be included in the Governor's budget. Portions of the Budget Act are summarized below.

The Governor is required to submit a budget to the Legislature for each fiscal year. The budget is required to show, among other things, (i) a complete plan of proposed expenditures and estimated revenues for the ensuing fiscal year, (ii) the revenues and expenditures for the last fiscal year, and (iii) current assets, liabilities and reserves, any surplus or deficit and the debts and funds of the State. The budget is required to include an itemized estimate of appropriations for payment and discharge of the principal and interest of the indebtedness of the State, among other things. Deficits or anticipated deficits must be included in the budget.

The total appropriations requested for expenditures authorized by the budget must not exceed the estimated revenues from taxes, fees and all other sources for the next ensuing fiscal year.

The Budget Act applies to all moneys appropriated by the Legislature. Unless specifically exempted by the appropriations act, all departments, agencies and institutions of the State that accept moneys appropriated do so subject to the terms and provisions of the Budget Act. No appropriation or any surplus of any appropriation may be diverted from the department, agency, institution or division for which they were appropriated. Appropriated moneys may be subject to any restrictions set forth in the appropriation or any schedules or other restrictions provided by the Legislature. Transfers of moneys from one purpose or function to another within an item of appropriation are permissible at the discretion of the Governor as provided in the Budget Act. Appropriated moneys may not be transferred from one item of appropriation to any other item of appropriation without legislative approval.

Unexpended Balances. Except for certain funds detailed in the Budget Act or funds that may be exempted by the annual appropriations act, the Director of Finance must, at the end of each fiscal year, close out to the proper fund or account for all remaining unexpended and unencumbered balances of appropriations made by the Legislature.

Budgetary Controls. The Director of Finance is required to exercise accounting control over all State departments, institutions and agencies other than the Legislature and legislative committees. The Director of Finance must require the head of each department to submit not later than May 15 of each year a work program (budget) for the ensuing fiscal year. Such program must include all funds from any source whatsoever made available to each department for its operation. The Director of Finance and the State Budget Officer are required to review the work program of each department. The Director of Finance must, if the Governor deems necessary, revise, alter, decrease or change such work programs before or after approving the same. The aggregate of such work programs must not exceed the total appropriations or other funds from any source whatsoever made available to each department for the fiscal year in question. The Director of Finance must permit all expenditures to be made on the basis of such work programs. The Director of Finance is required to examine and approve or disapprove all requisitions and requests for expenditures of any department, except the judicial department and salaries or compensation of officers fixed by law.

State Funds And Accounting

The Division of Finance maintains its accounting records in accordance with State law and in accordance with generally accepted accounting principles ("GAAP").

Funds are accounted for and reported in the following categories: governmental funds; proprietary funds; and fiduciary funds. Governmental funds include the General Fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. Proprietary funds include enterprise and internal service funds. Fiduciary funds include pension trust funds, investment trust funds, private purpose trust funds, and agency funds.

Major Governmental Funds

Fund reporting in the financial statements for governmental funds focuses on major funds as defined by GAAP. The State reports the following major governmental funds.

General Fund. The General Fund is the principal fund from which appropriations are made for State operations. It is specifically maintained to account for all financial resources and transactions not accounted for in another fund. The General Fund receives State sales taxes, which comprise the largest State source of this fund's revenues. Other principal sources of revenues include federal contracts, grants and mineral lease payments, State departmental collections and miscellaneous licenses, fees and taxes. Funding for debt service on the State's general obligation bonds is usually appropriated from the General Fund and transferred to the various bond sinking funds within the debt service fund.

Uniform School Fund (Special Revenue Fund). The Uniform School Fund currently receives all individual income and corporate franchise (income) taxes, which together comprise the majority of revenues to the fund. Federal grants and contracts related to State public education funding are a secondary source of revenues. If the revenues of the Uniform School Fund are insufficient, appropriations are made from the General Fund to assist in financing the State's portion of the State–Supported Minimum School Program as provided by law.

If revenues deposited into the General Fund are not sufficient to permit transfers to the Uniform School Fund as provided by appropriation, the Director of Finance, with the approval of the Governor, must withhold such transfers during the fiscal period. If this withheld transfer creates a deficit in the Uniform School Fund, the Legislature must provide funding to make up the deficit in the subsequent fiscal year.

Transportation Fund (Special Revenue Fund). The Transportation Fund receives motor and special fuel taxes and car and truck registration taxes, it also receives a significant portion of funding from federal grants and contracts.

Centennial Highway Fund (Special Revenue Fund). The Centennial Highway Fund was established in 1997 to account for all Centennial Highway projects, the largest of which is the I–15 reconstruction project. Sources of revenue include $^{1}/_{64}$% sales tax, federal grants, restricted vehicle registration fees, bond proceeds, investment earnings, and appropriations from the General and Transportation Funds.

Trust Lands (Permanent Fund). The Trust Lands Fund is a permanent fund that accounts for land grants and the sale of such lands received from the federal government under the federal Enabling Act. The principal in the fund is perpetual, with the earnings used primarily to support public education.

Nonmajor Governmental Funds

The State's nonmajor governmental funds include other special revenue funds, capital projects funds, and debt service funds. The nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specific purposes. Examples include tobacco settlement monies, environmental activities, crime victim reparations and rural development programs.

The capital projects funds account for the resources obtained and used for the acquisition, construction or improvement of certain capital facilities. Such resources are principally derived from operating transfers from the General Fund and from bond proceeds.

The debt service funds are used to account for all State general obligation bond and certain revenue bond principal and interest payments made from individual sinking funds. Resources in debt service funds are provided by transfers from the General Fund or special revenue funds, certain pledged revenues, and investment earnings on moneys held in sinking funds (except as may be required by the proceedings authorizing the issuance of particular series of bonds).

State Tax System

The State's tax revenues are derived primarily from sales and use taxes, individual income taxes, motor fuel taxes, corporate franchise (income) taxes and also from numerous smaller sources including excise taxes on insurance premiums, beer, cigarettes and tobacco, severance taxes, investment income and numerous court and business regulation fees. These fees and taxes are regulated by the Legislature.

The State also receives revenues from unemployment compensation taxes (which tax is regulated by the federal government and set by a State setup corporation) and workers' compensation premium taxes (which tax is regulated by a quasi–state agency).

The State also has authority to levy and collect ad valorem property taxes, but has not done so since 1974. See in this section "Property Tax Matters" above.

In addition to the State's tax system, counties, cities and towns have authority to levy and collect sales and use taxes and property taxes. School districts, some special service areas and some special service districts have the authority to levy property taxes.

Property Tax

Property taxes are based on property valuation. Assessment levels are uniform throughout the State, but tax rates vary from entity to entity. See in this section "Property Tax Matters" above.

Individual Income and Corporate Franchise (Income) Tax

Individual Income Tax. The State is one of 43 states that impose an individual income tax. Following a general trend, in 1973 the State adopted federal definitions of, and amounts for, personal exemptions, standard deductions and itemized deductions. Currently, the basis for the State's individual income tax is an individual's federal taxable income to which certain modifications, subtractions and adjustments, are made to obtain the state taxable income. The individual income tax rates are graduated from 2.3% to 7%, with the top rate applying to state taxable incomes over $8,626 for those filing jointly or qualified heads of households, and state taxable incomes over $4,313 for single individuals.

Corporate Franchise (Income) Tax. The State imposes a tax on corporate net taxable income apportioned to the State. The rate is 5%. Federal taxes are not deductible. Currently, the minimum tax is $100.

Sales and Use Tax

In 1933, a general sales tax was imposed to relieve the burden on the property tax and to bolster State revenues. Currently, the State sales and use tax rate is 4.75% of the purchase price of tangible personal property and certain services. The tax rate for gas, electricity, heat, coal, fuel oil or other fuels sold for residential use is 2%.

In general, State sales taxes are imposed based on retail sales or use of tangible personal property, admissions, meals, utility services, general services on tangible personal property, hotel and motel accommodations, and certain other items. Use tax also applies to (a) goods shipped to the State for use, storage, or other consumption, (b) goods purchased outside of the State for use, storage, or other consumption in the State, and (c) services subject to tax but performed outside the State for use, storage, or other consumption in State.

The State requires its largest sales taxpayers (with annual liabilities more than $50,000) to pay on a monthly basis. Monthly sales taxpayers and those paying via electronic funds transfer receive a 1.5% discount on State taxes. Because approximately 75% of the sales tax is now remitted monthly, the State's cash flow has less variations.

Beginning July 1, 2003: (i) $^{1}/_{16}$% of the State's general sales and use tax, subject to an annual cap of $17,500,000, will be specially allocated each year to (a) the preservation of sensitive plant and animal species, (b) the Agriculture Resource Development Fund, (c) the adjudication of water rights, (d) the Water Resource Conservation and Development Fund, (e) the Utah Wastewater Loan Program, and (f) the Drinking Water Loan Program subaccount; and (ii) another $^{1}/_{16}$% of the State's general sales and use tax, this time subject to an annual cap of $18,743,000, will be specially allocated each year to (a) the Transportation Corridor Preservation Revolving Loan Fund, (b) the State Park Access Highways Improvement Program, and (c) the class B and class C roads account.

Local Taxes

In addition to the State's sales and use taxes, a uniform local sales and use tax of 1% applies in counties, cities and towns, which have adopted the local tax ordinance, 50% of such local sales tax revenue is allocated on the basis of direct point of sale and 50% is allocated on the basis of population. Cities are guaranteed at least 0.75% of point of sale under a hold–harmless provision.

Counties, cities and towns within an organized transit district may, if approved by voters, impose a sales and use tax levy of 0.25% on the same items to which other authorized sales and use taxes apply to fund a public transportation system. In addition, certain counties may, if approved by the voters, impose an additional 0.25% sales and use tax to fund a fixed guideway and expanded public transportation system. Cities not in an organized transit district may adopt a "highways tax" at 0.25% for construction and maintenance of highways.

In addition to the forgoing taxes certain counties, cities or towns may impose a number of other miscellaneous taxes.

Unemployment Compensation Tax

Employers of one or more persons in the State are subject to the State's unemployment tax, the proceeds of which are used to finance benefit payments to unemployed workers. The tax is based on employee earnings with the rate depending on several factors including annual and quarterly payroll stability and the age of the firm. As of June 30, 2005, the unemployment compensation fund had a fund balance of approximately $512 million.

Workers' Compensation Tax

Primary Insurance. Employers doing business in the State must provide worker's compensation insurance coverage for their employees in one of three ways. They may insure with the Workers' Compensation Fund ("WCF"), a non–profit, quasi–public Utah corporation; or they may insure with a private insurance carrier authorized to transact the business of workers' compensation insurance in the State; or, with the approval of the State Labor Commission, they may be self–insured. If the employer chooses to be insured by WCF or a private insurance carrier, the premium rates paid depend on the individual employer's claim loss experience as well as the particular industry in which the employer operates.

Employers' Reinsurance Fund. The Employers' Reinsurance Fund ("ERF"), covers employers for liability arising from industrial accidents or occupational diseases occurring on or before June 30, 1994. For claims resulting from an accident or disease arising out of and in the course of the employee's employment on or after July 1, 1994, the employer or its insurance carrier is liable for permanent total disability compensation. By statute, each year the State Labor Commission must establish a premium tax within a 9.25% maximum based upon the recommendation of an actuary for payment by insurers and self–insured employers. In 1994 the Legislature passed legislation limiting the State's liability to the cash or assets in the ERF only. By statute the State is not liable for the debts and obligations of the ERF. See "APPENDIX A—BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION OF THE STATE OF UTAH FOR FISCAL YEAR 2005—Notes to the Financial Statements—Note 12. Deficit Net Assets."

Uninsured Employers' Fund. To assist in paying workers' compensation benefits to employees whose employers are insolvent, or are otherwise unable to pay the benefits owed to their employees, the State established an Uninsured Employers' Fund ("UEF") in 1984. The UEF is funded by a premium tax based upon the recommendation of an actuary in the same manner as ERF except that self–insured employers may be assessed an amount necessary to pay benefits due an employee of an insolvent self–insured and a subrogation right exists against any employer failing to make compensation payments. The premium tax rate is currently set at 0.25%. The liability of the State with respect to the payment of any compensation benefits, expenses, fees or disbursements properly chargeable against the UEF, is limited to the assets of the fund. By statute, the State is not otherwise liable for the making of any UEF payment.

Severance Taxes

Since 1937, the Legislature has provided for the levy of a mine occupation or severance tax on production and sale of oil, gas and metalliferous minerals in the State, including copper, lead, gold, silver, zinc, iron, tungsten, uranium, vanadium, and other valuable minerals.

In general, a severance tax of 3% to 5%, of the value, at the well, is imposed on oil and gas, including natural gas.

The severance tax on mines is 2.6% of the taxable value of all metals or metalliferous minerals sold or otherwise disposed of in the State or shipped out of State.

Highway Users' Taxes

Highway users' taxes can be divided into four major categories: motor and special fuel taxes, which constitutes the bulk (almost 80%) of highway users' taxes; motor vehicle registration and title fees; fees charged for the issuance of driver licenses; and additional fees charged to intrastate and interstate truck fleets. Funds derived from the highway users' taxes are used almost entirely for: State highway construction and maintenance; distribution to cities and counties for use on local roads and streets; policing the highways; and administrative and regulatory purposes in connection with the use of roads.

Miscellaneous Taxes and Fees

The State collects a number of miscellaneous taxes and fees. Most important of these are the insurance premium tax, cigarette and tobacco tax, wine and liquor tax, inheritance tax, environmental surcharge, waste tire fee, and fish and game license fees. Other State revenue sources include license fees and other fees collected by colleges, universities and State departments.

State Revenues, Expenditures And Fund Balances

The State receives revenues from three principal sources: (a) taxes; (b) federal grants–in–aid; and (c) miscellaneous charges and receipts, including fees, the State's share of mineral royalties, and bonuses on federal land. Revenues received in the governmental fund types (excluding the Trust Lands permanent fund) are as follows:

	Fiscal Year Ended June 30 (in thousands)									
	2005	% (1)	2004	% (1)	2003	% (1)	2002	% (1)	2001	%
Taxes (2)	$4,467,665	58%	$3,989,188	57%	$3,765,460	58%	$3,705,851	60%	$3,879,866	62%
Federal contracts and grants	2,366,786	31	2,295,428	33	2,049,922	32	1,856,477	30	1,708,087	27
All other misc. revenues (3)	830,897	11	732,078	10	652,561	10	639,710	10	655,329	11
Total all funds	$7,665,348	100%	$7,016,694	100%	$6,467,943	100%	$6,202,038	100%	$6,243,282	100%

(1) Percentage of total Governmental Fund Revenue. Beginning in Fiscal Year 2002, this summary includes revenues of the State's governmental funds (except the Trust Lands permanent fund). The State implemented GASB Statement 34 in Fiscal Year 2002. The new financial reporting requirements of Statement 34 impacted the way certain funds were classified and reported. As a result, the comparability between Fiscal Years 2005 through 2002 revenue amounts to Fiscal Year 2001 is affected.

(2) Includes sales, individual income, corporate franchise, motor and special fuel taxes, and other miscellaneous taxes.

(3) Includes charges for services, licenses, permits, and fees, federal aeronautics, federal mineral lease revenues; intergovernmental revenues; interest on investments; liquor control profits; and other miscellaneous revenues.

(Source: Division of Finance.)

Revenue Summary. For Fiscal Year 2005, General Fund revenues from all sources totaled approximately $4.2 billion. Of this amount, 43% came from federal contracts and grants, 40% came from sales taxes, 6% came from charges for services and licenses, permits and fees, 5% came from federal mineral lease, investment income and miscellaneous and other revenues, and 5% came from other tax sources. The General Fund revenue includes credit for profits of the Liquor Enterprise Fund which amounted to $38.1 million.

In the Uniform School Fund for Fiscal Year 2005, revenues from all sources totaled approximately $2.5 billion. Of this amount, 76% came from individual income taxes, 14% came from federal contracts and grants, 8% came from corporate franchise taxes, and 2% came from other miscellaneous revenue sources.

In the Transportation Fund for Fiscal Year 2005, revenues from all sources totaled approximately $719.6 million. Of this amount, 47% came from Motor and Special Fuel Taxes, 27% came from federal contracts and grants, 13% came from charges for services and licenses, permits, and fees, and 13% came from other miscellaneous unrestricted taxes and fees.

In the Centennial Highway Fund for Fiscal Year 2005, revenues from all sources totaled $73.5 million. Of this amount, 60% came from federal contracts and grants, 28% came from motor vehicle registration fees, 8% came from sales tax revenue, and 4% came from interest income.

Revenues by Source

All Governmental Fund Types (1)

	Fiscal Year Ended June 30 (in thousands)				
	2005 (1)	2004 (1)	2003 (1)	2002 (1)	2001
Taxes:					
Individual income tax	$1,946,593	$1,706,774	$1,587,520	$1,584,546	$1,712,676
Sales and use tax	1,699,636	1,553,909	1,481,823	1,473,479	1,465,301
Motor and special fuel tax	336,417	327,838	321,370	321,682	310,000
Other taxes	275,715	234,774	213,618	201,583	208,748
Corporate tax	209,304	165,893	161,129	124,561	183,141
Total taxes	4,467,665	3,989,188	3,765,460	3,705,851	3,879,866
Other revenues:					
Federal contracts and grants	2,366,786	2,295,428	2,049,922	1,856,477	1,708,087
Charges for services	273,499	242,780	211,756	222,669	236,986
Miscellaneous and other	231,708	208,171	193,448	176,895	112,970
Licenses, permits and fees	121,382	113,625	110,315	107,201	91,875
Federal mineral lease	82,704	67,216	47,307	30,527	49,566
Investment income	45,017	25,943	29,418	31,240	65,068
Federal aeronautics	34,416	25,821	18,791	31,026	33,386
Intergovernmental	4,104	11,395	8,463	7,611	35,225
Total other revenues	3,159,616	2,990,379	2,669,420	2,463,646	2,333,163
Total revenues	7,627,281	6,979,567	6,434,880	6,169,497	6,213,029
Liquor profit transfer	38,067	37,127	33,063	32,541	30,253
Total revenues and liquor profit transfer	$7,665,348	$7,016,694	$6,467,943	$6,202,038	$6,243,282

(1) Beginning in Fiscal Year 2002, this summary includes revenues of the State's governmental funds (except the Trust Lands permanent fund). The State implemented GASB Statement 34 in Fiscal Year 2002. The new financial reporting requirements of Statement 34 impacted the way certain funds were classified and reported. As a result, the comparability between Fiscal Years 2005 through 2002 revenue amounts to Fiscal Year 2001 is affected.

(Sources: Division of Finance and the 2005 CAFR.)

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Expenditures by Function

All Governmental Fund Types (1)

Function	Fiscal Year Ended June 30 (in thousands) 2005 (1)	2004 (1)	2003 (1)	2002 (1)	2001
Human services, health, corrections, and environmental quality	$2,236,519	$2,084,990	$1,888,105	$1,775,052	$1,613,869
Public education	2,168,896	2,038,053	1,979,880	1,998,450	1,949,959
Transportation and public safety	995,357	961,441	882,151	999,332	998,107
Higher education	676,208	647,749	632,368	652,992	569,722
Employment and family services	417,037	394,926	363,116	321,154	286,304
General government and courts	286,698	279,209	269,450	287,024	256,505
Debt service	273,679	211,960	189,020	175,188	158,886
Capital outlay	139,488	173,869	205,861	112,569	153,126
Natural resources	123,195	121,461	134,247	121,072	104,859
Community and economic development	87,621	89,051	91,986	91,014	83,526
Business, labor and agriculture	85,115	72,124	66,382	63,940	49,672
Leave/Postemployment benefits (2)	–	–	–	–	9,186
Total expenditures All Governmental Fund Types	$7,489,813	$7,074,833	$6,702,566	$6,597,787	$6,233,721

(1) Beginning in Fiscal Year 2002, this summary includes expenditures of the State's governmental funds (except the Trust Lands permanent fund). The State implemented GASB Statement 34 in Fiscal Year 2002. The new financial reporting requirements of Statement 34 impacted the way certain funds were classified and reported. As a result, the comparability between Fiscal Years 2005 through 2002 expenditure amounts to Fiscal Year 2001 is affected.

(2) Beginning in Fiscal Year 2002, Leave/Postemployment benefits liability and the related expenditure is no longer reported in the governmental fund statements as a result of additional guidance in GASB Interpretation 6.

(Sources: Division of Finance and the 2005 CAFR.)

Changes in All Governmental Fund Types (1)

	Fiscal Year Ended June 30 (dollars in millions) 2005 (1)	2004 (1)	2003 (1)	2002 (1)	2001
Revenues (2)	$7,665	$7,017	$6,468	$6,202	$6,243
% change over previous year	9.2%	8.5%	4.3%	(0.7)%	3.7%
Net other financing sources (3)	$170	$29	$319	$565	$18
Expenditures (4)	$7,490	$7,075	$6,703	$6,598	$6,234
% change over previous year	5.9%	5.5%	1.6%	5.8%	4.2%

(1) Beginning in Fiscal Year 2002, this summary includes revenues and expenditures of the State's governmental funds (except the Trust Lands permanent fund). The State implemented GASB Statement 34 in Fiscal Year 2002. The new financial reporting requirements of Statement 34 impacted the way certain funds were classified and reported. As a result, the comparability between Fiscal Years 2005 through 2002 amounts to Fiscal Year 2001 is affected.

(2) Includes liquor control profits.

(3) Includes bond proceeds, net of any refunding issues, plus financing provided from capital leasing.

(4) Funding for expenditures is provided from revenues, beginning balances, bond proceeds, and capital leases issued. Beginning balances are not reflected in this table.

(Sources: Division of Finance and the 2005 CAFR.)

Fund Balances (1)

Fund Balances—All Governmental Fund Types

Fund	Fiscal Year Ended June 30 (in thousands) 2005 (2)	2004 (2)	2003 (2)	2002 (2)	Restated 2001
General (3)	$ 653,979	$ 485,953	$ 386,996	$ 368,025	$ 567,810
Special Revenue:					
Uniform School (4)	406,494	313,886	243,917	182,219	242,727
Transportation (5)	206,049	226,081	214,879	130,920	126,080
Centennial Highway	184,450	217,451	320,234	305,357	63,933
Environmental Reclamation (6)	25,921	23,762	23,291	24,058	21,556
Rural Development (7)	19,922	15,094	12,318	11,357	8,086
Tobacco Endowment	18,109	17,759	12,177	41,531	27,521
Crime Victim Reparation (6)	9,623	10,653	13,526	16,558	14,169
Miscellaneous Special Rev. (6)	8,074	7,603	6,489	6,847	5,895
Universal Telephone (6)	5,076	3,804	4,787	8,895	10,473
Consumer Education (7)	3,324	3,564	3,133	2,967	3,836
State Capitol	51	–	37	21	7
Sports Authority (8)	–	–	–	689	1,127
Capital Projects	226,666	122,343	248,021	305,386	128,340
Debt Service	12,636	12,842	16,004	22,882	12,110
Total	$1,780,374	$1,460,795	$1,505,809	$1,427,712	$1,233,670

(1) Includes restricted and unrestricted fund balances.

(2) Beginning in Fiscal Year 2002, this summary includes fund balances of the State's governmental funds (except the Trust Lands permanent fund). The State implemented GASB Statement 34 in Fiscal Year 2002. The new financial reporting requirements of Statement 34 impacted the way certain funds were classified and reported. As a result, the comparability between Fiscal Years 2005 through 2002 fund balance amounts to Fiscal Year 2001 is affected.

(3) The General Fund Fiscal Year 2001 ending fund balance was restated, resulting in a decrease of ($140.3) million because of the following changes: (a) reclassification of water and housing loan funds that were previously reported as a part of the General Fund, but now are reported as proprietary funds due to the implementation of GASB Statement 34 resulted in a decrease of ($286.9) million; (b) additional guidance from GASB Interpretation 6 increased fund balance by $142.4 million; and c) miscellaneous changes because of various fund reclassifications and prior period adjustments due to GASB Statement 34, these changes amounted to an increase in fund balance of $4.2 million.

(4) The Uniform School Fund Fiscal Year 2001 ending fund balance was restated by approximately $24.0 million due to: (a) additional guidance in GASB Interpretation 6, which increased fund balance by $18.4 million; (b) reclassification of Applied Technology Centers to a component unit resulted in a decrease of ($4.1) million; and (c) various fund reclassifications and prior period adjustments of $9.6 million due to GASB Statement 34.

(5) The Transportation Fund Fiscal Year 2001 ending fund balance was restated by $30.8 million primarily because of additional guidance in GASB Interpretation 6.

(6) The ending Fiscal Year 2001 fund balances for the following funds were reclassified to special revenue funds in the following amounts because of GASB Statement 34: (a) Environmental Reclamation Fund—$21.6 million; (b) Crime Victim Reparation Fund—$14.2 million; (c) Universal Telephone Service Fund—$10.5 million; and (d) Miscellaneous Special Revenue Funds—$5.9 million. These funds had previously been reported as trust funds or proprietary funds in the fiscal years prior to Fiscal Year 2002.

(7) The Consumer Education and Rural Development Funds had ending Fiscal Year 2001 fund balance restatements of $3.5 million and $6.5 million respectively, because of fund reclassifications due to the implementation of GASB Statement 34.

(8) The Sports Authority Fund was closed in Fiscal Year 2003.

(Sources: Division of Finance and the 2005 CAFR.)

General Fund

Revenues, Expenditures and Fund Balances

	Fiscal Year Ended June 30 (in thousands)				
	2005 (1)	2004 (1)	2003 (1)	2002 (1)	2001
Revenues:					
Federal contracts and grants...	$1,776,555	$1,741,580	$1,524,832	$1,341,072	$1,214,201
Sales and use tax	1,664,352	1,521,076	1,447,281	1,437,339	1,441,046
Charges for services...............	238,181	204,874	182,090	192,190	181,748
Other taxes	234,710	200,167	187,397	172,307	194,250
Miscellaneous and other.........	148,015	143,033	124,422	114,449	74,325
Federal mineral leases............	82,704	67,216	46,335	29,367	49,566
Liquor profit (2)	38,067	37,127	33,063	32,541	30,253
Licenses, permits and fees	17,866	18,029	17,745	17,721	16,963
Investment income	16,483	6,897	8,258	15,333	45,468
Total revenues	$4,216,933	$3,939,999	$3,571,423	$3,352,319	$3,247,820
% change over previous year.....	7.0%	10.3%	6.5%	3.2%	5.1%
Expenditures.............................	$4,016,667	$3,775,296	$3,519,422	$3,412,413	$3,088,090
% change over previous year.....	6.4%	7.3%	3.1%	10.5%	6.4%
Fund Balance: (3)					
Unreserved, designated	$366,992	$255,531	$156,016	$146,551	$187,491
Unreserved, undesignated	24,627	16,359	–	–	11,614
Reserved................................	262,360	214,063	230,980	221,474	508,962
Total fund balance	$653,979	$485,953	$386,996	$368,025	$708,067

(1) Due to changes in accounting standards, the comparability between Fiscal Years 2005 through 2002 to Fiscal Year 2001 is affected.
(2) Liquor control profits are reported as transfers into the General Fund.
(3) The Fund Balance is derived from revenues, expenditures, transfers and other financing sources which are not presented in this table and the beginning fund balance from the prior fiscal year.

(Sources: Division of Finance and the 2005 CAFR.)

Capital Expenditure Authorizations

The following table presents historical data on capital expenditures in the year authorized from all sources, including bond proceeds and other available funds. Included in these figures are capital outlay expenses and authorizations for the construction of new buildings and the improvement of existing buildings. These figures also include expenditures for the construction of buildings for higher education, water development or storage projects, flood control projects, the construction or improvement of roads and related transportation projects, State and some local recreation projects and local projects in energy–impacted areas funded with community impact moneys. These figures exclude debt service.

Capital Expenditure Authorizations (in millions)

Fiscal Year Ended June 30				
2006	2005	2004	2003	2002
$675.0	$754.1	$709.1	$871.7	$920.2

(Source: Governor’s Office of Planning and Budget.)

Investment Of Funds

Investment of Operating Funds; The State Money Management Act. The State Money Management Act, Title 51, Chapter 7, Utah Code (the "MM Act") governs the investment of all public funds held by public treasurers in the State. It establishes criteria for investment of public funds with an emphasis on safety, liquidity, yield, matching strategy to fund objectives, and matching the term of investments to the availability of funds. The MM Act provides a limited list of approved investments, including qualified in–state and permitted out–of–state financial institutions, approved government agency securities and investments in corporate securities carrying "top credit ratings." The MM Act also provides for pre–qualification of broker dealers requiring that broker dealers must agree in writing to comply with the MM Act and certify that they have read and understand the MM Act. The MM Act establishes the Money Management Council (the "MM Council") to exercise oversight of public deposits and investments. The law requires all securities to be delivered versus payment to the treasurer's safekeeping bank. It requires diversification of investments, especially in securities of corporate issuers. Not more than 5% of the portfolio may be invested with any one corporate issuer. Investments in mortgage pools and mortgage derivatives or any security making unscheduled periodic principal payments are prohibited. The MM Act also defines the State's prudent investor rules. The MM Council is comprised of five members appointed by the Governor of the State for terms of four years, after consultation with the State Treasurer and with the advice and consent of the State Senate.

The State is currently complying with all of the provisions of the MM Act for all State operating funds. A significant portion of State funds are invested in the Utah Public Treasurers Investment Fund ("PTIF"), as discussed below.

The Utah Public Treasurers' Investment Fund. The PTIF is a local government investment fund established in 1981, and managed by the State Treasurer. The PTIF invests to ensure safety of principal, liquidity and a competitive rate of return. All moneys transferred to the PTIF are promptly invested in securities authorized by the MM Act. Safekeeping and audit controls for all investments owned by the PTIF must comply with the MM Act.

All investments in the PTIF must comply with the MM Act and rules of the MM Council. The PTIF invests only in securities authorized by the MM Act including time certificates of deposit, top–rated commercial paper and corporate notes, treasuries and securities of certain agencies of the U.S. Government. The maximum weighted average adjusted life of the portfolio, by policy, is not to exceed 90 days. The maximum final maturity of any security purchased by the PTIF is limited to three years, except that a maximum maturity of five years is allowed for treasury or agency securities whose rate adjusts at least annually.

By law, investment transactions are conducted only through certified dealers, qualified depositories or directly with issuers of the securities. All securities purchased are delivered versus payment to the custody of the public treasurer's safekeeping bank, assuring a perfected interest in the securities. Securities owned by the PTIF are segregated from securities owned by the State. The State has no claim on assets owned by the PTIF except for any investment of State moneys in the PTIF. Deposits are not insured or otherwise guaranteed by the State. It is the stated policy of the State Treasurer to manage a stable net asset value pool and maintain a net asset value that does not deviate by more than 0.5%.

Securities in the PTIF include certificates of deposit, commercial paper, short–term corporate notes, obligations of the U.S. Treasury and securities of certain agencies of the U.S. Government. These short–term securities must be rated "first tier" ("A1," "P1," for short–term investments and "A" or better for long–term investments) by two nationally recognized statistical rating organizations, one of which must be Moody's or S&P. Variable rate securities in the PTIF must have an index or rate formula that has a correlation of at least 90% of the effective federal funds rate.

Investment activity of the State Treasurer in the management of the PTIF is reviewed monthly by the MM Council and is audited by the State Auditor. The PTIF fund, itself, is not rated.

See "APPENDIX A—BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION OF THE STATE OF UTAH FOR FISCAL YEAR 2005–Notes To The Financial Statements–Note 3. Deposits and Investments" and "–Note 4. Investment Pool."

Investment of Bond Proceeds. Proceeds of the 2006A Bonds will be held by the Trustee and invested so as to be readily available. Bond proceeds may also be invested in the PTIF or other available investment funds authorized under the MM Act.

Retirement Systems

All full–time employees of the State are members of the Utah State Retirement System. The State is the largest employer in the state employing approximately 22,000 people. For a discussion concerning the Utah State Retirement System see "APPENDIX A—BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION OF THE STATE OF UTAH FOR FISCAL YEAR 2005—Notes to the Financial Statements—Note 16. Pension Plans" and "–Note 17. Postemployment Benefits."

Risk Management And Insurance

The State is self–insured against certain property and liability claims. The Legislature established the Administrative Services Risk Management Fund to pay for commercial insurance or for the self–insured portion of certain property and liability risks. Revenues are generated from premiums charged to State departments and institutions of higher education and also from several local school districts and local health departments.

The property self–insurance limits are currently $1 million per claim with an annual aggregate of $2.5 million. Generally, claims in excess of the self–insured limits are covered by insurance policies with private insurance companies. This coverage has limits of $300 million at any single building, with overall limits in excess of $16.3 billion. The State has aggregate coverage of $200 million for earthquake and flood losses. Earthquake and flood losses above this limit are self–insured.

The State is self–insured for 100% of the liability claims.

As of June 30, 2005, the Administrative Services Risk Management Fund was estimated to have approximately $44.7 million in reserve available to pay for claims incurred. In the opinion of the State's Risk Manager, the available balance will be adequate to cover claims through June 30, 2006. The Legislature has chosen to fund the Administrative Services Risk Management Fund at this level, and it has been advised that any extremely large claims would need to be covered by an appropriation. See "APPENDIX A—BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION OF THE STATE OF UTAH FOR FISCAL YEAR 2005—Notes to the Financial Statements—Note 18. Risk Management And Insurance."

LEGAL MATTERS

Absence Of Litigation Concerning The Bonds

There is no litigation pending or threatened against the 2006A Bonds questioning or in any matter relating to or affecting the validity of the 2006A Bonds.

On the date of the execution and delivery of the 2006A Bonds, certificates will be delivered by the State to the effect that to the knowledge of the State, there is no action, suit, proceeding or litigation pending or threatened against the State, which in any way materially questions or affects the validity or enforceability of the 2006A Bonds or any proceedings or transactions relating to their authorization, execution, authentication, marketing, sale or delivery or which materially adversely affects the existence or powers of the State.

A non–litigation opinion issued by the State's Attorney General, dated the date of closing, will be provided stating, among other things, that there is not now pending, or to his knowledge threatened, any action, suit, proceeding, inquiry, or any other litigation or investigation, at law or in equity, before or by any court, public board or body, challenging the creation, organization or existence of the State, the Authority or DFCM, or the titles of its respective officers to their respective offices, or the ability of the State, the Authority or DFCM, or its respective officers to authenticate, execute or deliver the 2006A Bonds or such other documents as may be required in connection with the issuance and sale of the 2006A Bonds, or to comply with or perform its respective obligations thereunder, or seeking to restrain or enjoin the issuance, sale or delivery of the 2006A Bonds, or directly or indirectly contesting or affecting the proceedings or the authority by which the 2006A Bonds are issued, the legality of the purpose for which the 2006A Bonds are issued, or the validity of the 2006A Bonds or the issuance and sale thereof.

Miscellaneous Legal Matters

The State, its officers, agencies, and departments, are parties to numerous routine legal proceedings, many of which normally occur in governmental operations.

See "APPENDIX A—BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION OF THE STATE OF UTAH FOR FISCAL YEAR 2005—Notes to the Financial Statements—Note 14. Litigation, Contingencies, and Commitments."

Attorney General's Opinion Of Effect Of Legal Proceedings On State's Ability To Make Timely Payments On 2006A Bonds

Based on discussions with representatives of the State's Executive and Legislative Departments, the Attorney General is of the opinion that the miscellaneous legal proceedings against the State, individually or in the aggregate, are not likely to have a material adverse impact on the State's ability to make its payments of the principal of and interest on the 2006A Bonds as those payments come due.

Tax Exemption

Federal Income Taxation

Federal tax law contains a number of requirements and restrictions which apply to the 2006A Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Authority and the State have covenanted to comply with all requirements that must be satisfied in order for interest on the 2006A Bonds to be excludible from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the 2006A Bonds to become includible in gross income for federal income tax purposes retroactively to the date of issuance of the 2006A Bonds.

Subject to the Authority's and the State's compliance with the above–referenced covenants, under present law, in the opinion of Bond Counsel, interest on the 2006A Bonds is not includible in the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the 2006A Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations and in computing the "branch profits tax" imposed on certain foreign corporations.

In rendering its opinion, Bond Counsel will rely upon (i) certifications of the Authority and the State, with respect to certain material facts solely within the Authority's and the State's knowledge. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (excluding S Corporations, Regulated Investment Companies, Real Estate Investment Trusts, REMICs and FASITs) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax–exempt interest, including interest on the 2006A Bonds.

Under the provisions of Section 884 of the Code, a branch profits tax is levied on the "effectively connected earnings and profits" of certain foreign corporations, which include tax–exempt interest such as interest on the 2006A Bonds.

Ownership of the 2006A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax–exempt obligations. Prospective purchasers of the 2006A Bonds should consult their tax advisors as to applicability of any such collateral consequences.

If a 2006A Bond is purchased at any time for a price that is less than the 2006A Bond's stated redemption price at maturity or, in the case of a 2006A Bond issued with original issue discount, its Revised Issue Price (as discussed below), the purchaser will be treated as having purchased a 2006A Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a 2006A Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such 2006A Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the 2006A Bonds.

An investor may purchase a 2006A Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the 2006A Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax–exempt bond. The amortized bond premium is treated as a reduction in the tax–exempt interest received. As bond premium is amortized, it reduces the investor's basis in the 2006A Bond. Investors who purchase a 2006A Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the 2006A Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the 2006A Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the 2006A Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the 2006A Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax–exempt obligations to determine whether, in the view of the Service, interest on such tax–exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the 2006A Bonds. If an audit is commenced, under current procedures the Service will treat the Authority as the taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the 2006A Bonds until the audit is concluded, regardless of the ultimate outcome.

Utah Income Taxation

In the opinion of Bond Counsel, under the existing laws of the State of Utah, as presently enacted and construed, interest on the 2006A Bonds is exempt from taxes imposed by the Utah Individual Income Tax Act. Bond Counsel expresses no opinion with respect to any other taxes imposed by the State or any political subdivision thereof. Ownership of the 2006A Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the 2006A Bonds. Prospective purchasers of the 2006A Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

Original Issue Discount

The initial public offering price of the 2006A Bonds maturing on May 15, 2017 and May 15, 2027, inclusive (the "Discount Bonds") is less than the amount payable at maturity. The difference between the Issue Price (defined below) of each maturity of the Discount Bonds and the principal amount payable at maturity is original issue discount. The issue price (the "Issue Price") for each maturity of the Discount Bonds is the price at which a substantial amount of such maturity of the Discount Bonds is first sold to the public. The Issue Price of each maturity of the Discount Bonds is expected to be the amount set forth on the inside cover page hereof or the amount corresponding to the yield set forth on the inside cover page hereof, but is subject to change based on actual sales.

For an investor who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity and who holds such Discount Bond to its stated maturity, subject to the condition that the Authority and the State comply with the covenants discussed under "LEGAL MATTERS—Tax Exemption–Federal Income Taxation" above, (a) the full amount of original issue discount with respect to such Discount Bond constitutes interest which is not includible in the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such Discount Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year.

If a Discount Bond issued with original issue discount is purchased at any time for a price that is less than the Discount Bond's Issue Price plus accreted original issue discount (the "Revised Issue Price"), the purchaser will be treated as having purchased such Discount Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Such treatment would apply to any purchaser who purchases such Discount Bond for a price that is less than its Revised Issue Price.

Owners of Discount Bonds who dispose of Discount Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Discount Bonds in the initial public offering, but at a price different from the Issue Price or purchase Discount Bonds subsequent to the initial public offering should consult their own tax advisors. Owners of Discount Bonds issued with original issue discount should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such Discount Bonds.

General

The approving opinions of Bond Counsel, concerning the validity of the 2006A Bonds, in substantially the form set out in APPENDIX D to this OFFICIAL STATEMENT, will be provided at the time of delivery of the 2006A Bonds. Chapman and Cutler LLP, will act as Bond Counsel for the purpose of rendering such opinions as to: (1) the validity of the issuance and sale of the 2006A Bonds, and (2) (a) the exclusion from gross income of interest on the 2006A Bonds for federal income tax purposes, and (b) the exemption of interest on the 2006A Bonds from State taxes imposed by the Utah Individual Income Tax Act. Copies of the opinion of Bond Counsel, in substantially the form set forth in APPENDIX D to this OFFICIAL STATEMENT, will be available upon request from the chief contact person for the State indicated under the heading "INTRODUCTION—Contact Persons" above.

Bond Counsel has reviewed those portions of the OFFICIAL STATEMENT captioned: "THE 2006A BONDS (except the portions under the captions "—General," "—Estimated Sources And Uses Of Funds," "—Debt Service On The 2006A Bonds," and "—Book–Entry System") and "LEGAL MATTERS—Tax Exemption" and "—Original Issue Discount." Bond Counsel also prepared and has reviewed APPENDIX D to the OFFICIAL STATEMENT, which sets forth the anticipated form of Bond Counsel's opinion on the 2006A Bonds. Bond Counsel has not assumed responsibility for the remaining material in the OFFICIAL STATEMENT and has not verified independently the information set out therein. In addition, Bond Counsel has not assumed responsibility for any agreement, representations, offering circulars, or other material of any kind not mentioned in this paragraph, relating to the offering of the 2006A Bonds for sale.

Certain legal matters will be passed upon for the State by the Office of the Attorney General of the State. Certain legal matters will be passed on for the Underwriter by Snell & Wilmer L.L.P., Salt Lake City, Utah.

MISCELLANEOUS

Bond Ratings

Moody's and S&P have rated the 2006A Bonds "Aa1," and "AA+," respectively, as of the date of this OFFICIAL STATEMENT.

Any explanation of the significance of these outstanding ratings may only be obtained from the rating service furnishing the same. The above ratings are not recommendations to buy, sell or hold the 2006A Bonds. There is no assurance that such ratings will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward change or withdrawal of such rating may have an adverse effect on the market price of the 2006A Bonds.

Trustee

The obligations and duties of the Trustee are described in the Indenture and the Trustee has undertaken only those obligations and duties that are expressly set out in the Indenture. The Trustee has not independently passed upon the validity of the 2006A Bonds, the security therefor, the adequacy of the provisions for payment thereof or the exclusion from gross income for federal tax purposes of the interest on the 2006A Bonds. The Trustee may resign or be removed or replaced as provided in the Indenture. Such Trustee is empowered to take various actions set forth in the Indenture. See “APPENDIX B—BASIC DOCUMENTATION–Miscellaneous Trustee Provisions.”

Pursuant to the Indenture, the Trustee is acting as trustee for the 2006A Bonds. Pursuant to a Bond Purchase Agreement, the Underwriter will underwrite the 2006A Bonds. The Trustee and the Underwriter are each indirectly wholly–owned subsidiaries of Wells Fargo & Company. Each of the Trustee and the Underwriter has separate responsibilities and duties in connection with the issuance, underwriting and payment of the 2006A Bonds. Each of the Trustee and the Underwriter, as the case may be, believes that the performance of its duties and responsibilities in respect of the 2006A Bonds does not constitute a prohibited conflict of interest under any applicable law, regulation, administrative order or court ruling. Nevertheless, no assurances can be given that conflict of interest could or would not arise as a result of the performance of these various duties.

Financial Advisor

The State has entered into an agreement with the Financial Advisor whereunder the Financial Advisor provides financial recommendations and guidance to the State with respect to preparation for sale of the 2006A Bonds, timing of sale, tax–exempt bond market conditions, costs of issuance and other factors relating to the sale of the 2006A Bonds. The Financial Advisor has read, participated in the drafting of and provided the information in certain provisions of this OFFICIAL STATEMENT. The Financial Advisor has not otherwise audited, authenticated or verified the information set forth in the OFFICIAL STATEMENT, or any other related information available to the State, with respect to accuracy and completeness of disclosure of such information, and no guaranty, warranty or other representation is made by the Financial Advisor respecting accuracy and completeness of the OFFICIAL STATEMENT or any other matters related to the OFFICIAL STATEMENT. Financial Advisor fees are contingent upon the sale and delivery of the 2006A Bonds.

Underwriter

The Underwriter of the 2006A Bonds, has agreed, subject to certain conditions, to purchase all of the 2006A Bonds from the Authority at an aggregate price of $8,334,729.87 (which consists of a principal amount of $8,355,000.00 plus an original issue premium of $116,704.00, less an original issue discount of $82,581.60 and an Underwriter’s discount of $54,392.53), and to make a public offering of the 2006A Bonds. The Underwriter has advised the Authority that the 2006A Bonds may be offered and sold to certain dealers (including dealers depositing the 2006A Bonds into investment trusts) at prices lower than the initial public offering prices set forth on the inside cover page of the OFFICIAL STATEMENT and that such public offering prices may be changed from time to time.

The Underwriter has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Independent Auditors

The financial statements of the State as of June 30, 2005, and for the fiscal year then ended, are included as APPENDIX A to this OFFICIAL STATEMENT and have been audited by the Utah State Auditor, as indicated in its report thereon. The State has neither requested nor obligated the consent of the State Auditor to include its report in this OFFICIAL STATEMENT and therefore the State Auditor has not performed any procedures with respect to such financial statements subsequent to the date of its report.

Additional Information

The foregoing description of the 2006A Bonds does not purport to be complete and is expressly made subject to the exact provisions of the complete documents, copies of which are available for inspection at the offices of the Financial Advisor during the offering of the 2006A Bonds, and subsequently, at the office of the Trustee in Salt Lake City, Utah.

Any statements in this OFFICIAL STATEMENT involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The Appendices attached hereto are an integral part of this OFFICIAL STATEMENT and should be read in conjunction with the foregoing material.

This OFFICIAL STATEMENT and its distribution and use have been duly authorized by the State.

State of Utah, State Building Ownership Authority

/s/ Edward T. Alter

Edward T. Alter, Secretary
State Building Ownership Authority

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APPENDIX A

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION OF THE STATE OF UTAH FOR FISCAL YEAR 2005

The Basic Financial Statements and Required Supplementary Information of the State for Fiscal Year 2005 are contained herein. Copies of current and prior financial reports are available on the internet and upon request from the contact person as indicated under "INTRODUCTION—Contact Persons" above.

The Government Finance Officers Association of the United States and Canada ("GFOA") have awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its CAFR for the 20th consecutive year, beginning with Fiscal Year 1985 through Fiscal Year 2004.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

The State's CAFR for Fiscal Year 2006 must be completed under State law by December 31, 2006.

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INDEPENDENT STATE AUDITOR'S REPORT

To the Members of the Legislature
of the State of Utah and
The Honorable Jon M. Huntsman, JR.
Governor, State of Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Utah as of and for the year ended June 30, 2005, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Utah Housing Corporation; Utah Public Employees Group Insurance; the University of Utah's hospital and component units; Utah State University; portions of the Utah College of Applied Technology; the Dairy Commission; and the Utah State Retirement Office, which represent 50 percent of the assets and 49 percent of the revenues of the aggregate discretely presented component units and 77 percent of the assets and 1 percent of the revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us; and our opinions, insofar as they relate to the amounts included for those agencies, funds, and component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Utah as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management discussion and analysis and other required supplementary information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Auston G. Johnson, CPA
Utah State Auditor
October 28, 2005

INTRODUCTION

The following is a discussion and analysis of the State of Utah's financial performance and position, providing an overview of the State's activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the transmittal letter in the Introductory Section of this report and with the State's financial statements that follow this section.

HIGHLIGHTS

Government-wide

- The State's net assets increased $1.012 billion or 9.1 percent over the prior year. Net assets of governmental activities increased $818.1 million or 8.5 percent due to an improving economy and active resource management. Net assets of business-type activities also grew significantly, increasing by $194.1 million or 12.5 percent, primarily due to revenues from employers' unemployment premiums exceeding benefit payments for the first time in several years.

Fund Level

- Combined tax revenues were 10.3 percent higher in the General Fund and 15.2 percent higher in the Uniform School Fund than the prior year as Utah's economy showed continued signs of improvement. The State's economic slowdown in 2002 and 2003 and subsequent improvement in fiscal years 2004 and 2005 is similar to the trend of the national economy.

- The General Fund and Uniform School Fund ended the fiscal year with "surplus" from unreserved and undesignated sources of $63.8 million and $108.1 million, respectively. By law, half of the General Fund surplus, or $31.9 million, was transferred to the Budget Reserve Account ("Rainy Day Fund"). Twenty-five percent of the Uniform School Fund surplus, or $27.0 million was transferred to the Education Budget Reserve Account.

Long-term Debt

- The State's long-term bonded debt increased a net $125.6 million or 3.7 percent. The increased debt was issued to fund highway and capital facility construction, to advance refund bonds, and to fund student loan programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report includes the State's Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Statements – Reporting the State as a Whole

The Statement of Net Assets and the Statement of Activities beginning on page 27 together comprise the *government-wide financial statements*. These statements provide a broad overview with a long-term focus of the State's finances as a whole and are prepared using the *full-accrual* basis of accounting, similar to private-sector companies. This means all revenues and expenses are recognized regardless of when cash is received or spent, and all assets and liabilities, including capital assets and long-term debt, are reported at the entity level.

The government-wide statements report the State's *net assets* – the difference between total assets and total liabilities – and how they have changed from the prior year. Over time, increases and decreases in net assets measure whether the State's overall financial condition is getting better or worse. In evaluating the State's overall condition, however, additional non-financial factors should be considered such as the State's economic outlook, changes in its demographics, and the condition of its capital assets and infrastructure. The government-wide statements report three activities:

Governmental Activities – Most of the State's basic services fall under this activity including education, transportation, public safety, courts, corrections, health, and human services. Taxes and federal grants are the major funding sources for these programs.

Business-type Activities – The State operates certain activities much like private-sector companies by charging fees to customers to cover all or most of the costs of providing the goods and services. Student loans, unemployment compensation, water project loan programs, and liquor sales are examples of business-type activities.

Component Units – Several entities are legally separate from the State, yet the State remains financially accountable for them. Colleges and Universities, Utah Housing Corporation, and Utah State Fair Corporation are examples of component units.

Fund Financial Statements – Reporting the State's Most Significant Funds
The fund financial statements beginning on page 32 provide detailed information about individual major funds, not the State as a whole. A fund is a group of related accounts that the State uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the State's funds are divided into three types, each of which uses a different accounting approach.

Governmental Funds – Most of the State's basic services are accounted for in governmental funds and are essentially the same functions reported as *governmental activities* in the government-wide statements. Governmental funds use the *modified accrual* basis of accounting, which measures the flow of current financial resources that can be converted to cash and the balances left at year end that are available for future spending. This *short-term* view of the State's financial position helps determine whether the State has sufficient resources to cover expenditures for its basic services in the near future.

Proprietary Funds – Proprietary funds include enterprise funds and internal service funds and account for state activities that are operated much like private-sector businesses. Like the government-wide statements, proprietary fund statements are presented using the *full-accrual* basis of accounting. Activities whose customers are mostly outside of state government (e.g., water project loans to local governments) are accounted for in *enterprise funds* and are the same functions reported as *business-type activities.* Thus, the *enterprise fund* financial statements reinforce the information reported for *business-type* activities in the government-wide statements, but provide more detail and additional information, such as cash flows. Activities whose customers are mostly other state agencies (e.g., motor pool) are accounted for in *internal service funds*. The internal service fund activities are consolidated with the governmental activities in the government-wide statements because those services predominantly benefit governmental rather than business-type activities.

Fiduciary Funds – Fiduciary funds account for assets that, because of trust relationships, can be used only for trust beneficiaries. The State is responsible for ensuring these assets are used for their intended purposes. Fiduciary funds use *full-accrual* accounting but are *not* included in the government-wide statements because their assets are not available to finance the State's own programs.

Reconciliation between Government-wide and Fund Statements
The financial statements include schedules on pages 34 and 38 that reconcile and explain the differences between the amounts reported for *governmental activities* on the government-wide statements (full-accrual accounting, long-term focus) with amounts reported on the *governmental* fund statements (modified accrual accounting, short-term focus). Following are some of the major differences between the two statements:

- Capital assets and long-term debt are included on the government-wide statements but are not reported on the governmental fund statements.
- Capital outlay spending results in capital assets on the government-wide statements but are expenditures on the governmental fund statements.
- Bond proceeds result in liabilities on the government-wide statements but are other financing sources on the governmental fund statements.
- Certain tax revenues that are earned but not yet available are reported as revenue on the government-wide statements but are deferred revenue on the governmental fund statements.

Notes to the Financial Statements
The notes beginning on page 56 provide additional schedules and information that are essential to a complete understanding of the financial statements. The notes apply to both the government-wide financial statements and the fund financial statements.

Required Supplementary Information (RSI)
Following the Basic Financial Statements are budgetary comparison schedules for major funds with legally adopted budgets and condition assessment data related to infrastructure. RSI further supports the information in the basic financial statements.

Supplementary Information
Supplementary Information includes combining statements for the State's nonmajor governmental, nonmajor proprietary and fiduciary funds and for nonmajor discretely presented component units. This section also includes schedules which compare budgeted expenditures to actual results at the legal level of control, which is generally the line item level of the *Appropriation Acts*.

Adjustments to Beginning Net Assets
As described in Note 2 of the financial statements on page 63, beginning net assets of governmental activities were adjusted as noted in the schedule on the following page. To enhance comparability, all amounts presented for fiscal year 2004 in this discussion and analysis were revised, where applicable, to reflect these changes, as if the changes had been made in the prior year.

Adjustments to Beginning Net Assets *(in millions)*	**Governmental Activities**	**Business-type Activities**
Net increase in capital assets	$ 12.7	$ —
Reclassification from governmental activities to a discrete component unit	(11.4)	—
Elimination of certain federal receivables	(98.9)	—
Elimination of postemployment liability	240.5	—
Recognition of a liability with the U.S. Environmental Protection Agency	(8.0)	—
Change in amortization methods	—	2.5
Total adjustments to beginning net assets	$ 134.9	$ 2.5

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets

The State's total net assets increased $1.012 billion or 9.1 percent in fiscal year 2005. In comparison, net assets in the prior year increased $530.7 million or 5.1 percent. This increase in net assets resulted from an improving economy and the active management of state resources. Approximately $259.1 million of the increase was in net capital assets as the State's investment in highways and buildings exceeded depreciation and net additional debt to finance projects. Total restricted net assets increased $402.2 million or 19.7 percent over the prior year. The $281.3 million increase in restricted net assets of governmental activities resulted primarily from an increase of $283.9 million in tax revenues for public education offset by a $135.9 million increase in public education expenses. In addition, there was an increase in net earnings of $102.1 million in the permanent Trust Lands Fund. Restricted net assets increased in business-type activities primarily due to unemployment compensation revenues exceeding related claims by $100.6 million. The increase of $282.0 million in unrestricted net assets of governmental activities was primarily due to increases in unrestricted carry-forward balances in the General Fund and other governmental funds of $165.5 million and $66.0 million, respectively. The increase in unrestricted net assets of business-type activities was the result of normal operations and is primarily due to the State adding additional capital to loan funds from sales taxes and mineral lease revenues. Net assets of business-type activities generally can be used only to finance the business-type activities' ongoing operations.

State of Utah
Net Assets as of June 30
(Expressed in Thousands)

	Governmental Activities		**Business-type Activities**		**Total Primary Government**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Current and Other Assets	$ 3,358,120	$ 2,847,758	$ 3,375,986	$ 3,024,147	$ 6,734,106	$ 5,871,905
Capital Assets	9,860,641	9,524,473	62,154	57,726	9,922,795	9,582,199
Total Assets	**13,218,761**	**12,372,231**	**3,438,140**	**3,081,873**	**16,656,901**	**15,454,104**
Current and Other Liabilities	699,180	645,685	39,972	37,300	739,152	682,985
Long-term Liabilities	2,113,602	2,138,648	1,648,535	1,489,054	3,762,137	3,627,702
Total Liabilities	**2,812,782**	**2,784,333**	**1,688,507**	**1,526,354**	**4,501,289**	**4,310,687**
Net Assets:						
Invested in Capital Assets, Net of Related Debt	8,197,279	7,942,495	28,419	24,141	8,225,698	7,966,636
Restricted	1,518,523	1,237,258	928,115	807,224	2,446,638	2,044,482
Unrestricted	690,177	408,145	793,099	724,154	1,483,276	1,132,299
Total Net Assets	**$ 10,405,979**	**$ 9,587,898**	**$ 1,749,633**	**$ 1,555,519**	**$ 12,155,612**	**$ 11,143,417**
Percent change in total net assets from prior year	8.5 %		12.5 %		9.1 %	

The largest component of the State's net assets, 67.7 percent, reflects investments in capital assets (e.g., land, buildings, equipment, roads, and other infrastructure) less the outstanding debt issued to finance those assets. As capital assets, these resources are not available for future spending, nor can they be readily liquidated to pay off their related liabilities. Resources needed to repay capital-related debt must be provided from other sources.

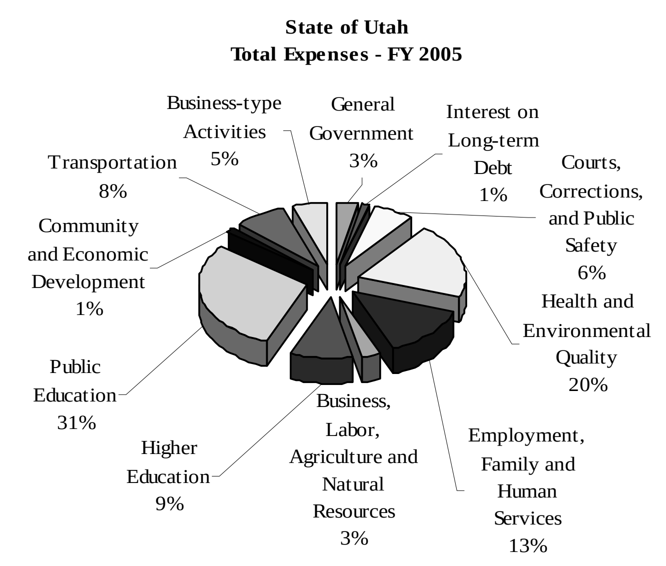
Restricted net assets comprise 20.1 percent of total net assets and are subject to constitutional, legal, or external constraints on how they can be used. Net assets that are restricted by the *Constitution of Utah* include income and corporate taxes that can be used only for public and higher education costs and for motor fuel taxes that can be used only for transportation expenses.

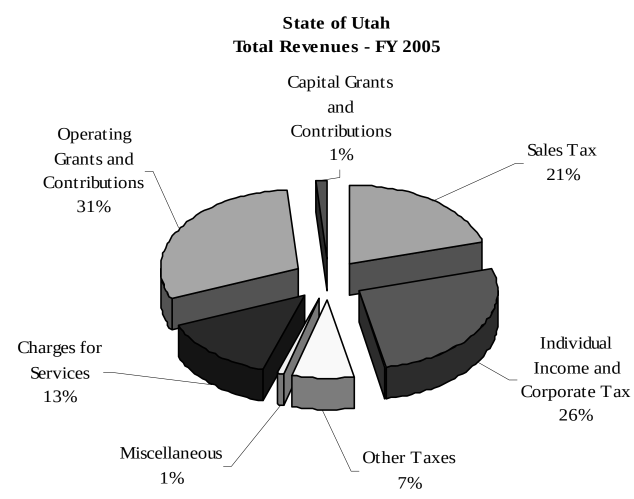
The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations, though certain laws and internally imposed designations of resources further limit the purposes for which many of those net assets may be used.

The schedule below and the charts on the following page summarize the State's total revenues, expenses, and changes in net assets for fiscal year 2005.

State of Utah
Changes in Net Assets
for the Fiscal Year Ended June 30
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2005	2004	2005	2004	2005	2004	2004 to 2005
Revenues							
General Revenues:							
Taxes	$ 4,519,789	$ 4,041,389	$ 14,874	$ 14,402	$ 4,534,663	$ 4,055,791	11.8 %
Other General Revenues	65,481	88,977	4,070	2,089	69,551	91,066	(23.6)
Program Revenues:							
Charges for Services	615,844	544,936	507,583	416,828	1,123,427	961,764	16.8
Operating Grants and Contributions	2,436,116	2,347,065	65,173	92,141	2,501,289	2,439,206	2.5
Capital Grants and Contributions	124,836	105,149	—	—	124,836	105,149	18.7
Total Revenues	**7,762,066**	**7,127,516**	**591,700**	**525,460**	**8,353,766**	**7,652,976**	**9.2**
Expenses							
General Government	240,091	187,544	—	—	240,091	187,544	28.0
Human Services and Youth Corrections	573,154	576,276	—	—	573,154	576,276	(0.5)
Corrections, Adult	195,716	197,043	—	—	195,716	197,043	(0.7)
Public Safety	162,922	150,772	—	—	162,922	150,772	8.1
Courts	98,319	97,894	—	—	98,319	97,894	0.4
Health and Environmental Quality	1,461,016	1,341,059	—	—	1,461,016	1,341,059	8.9
Higher Education	694,732	781,468	—	—	694,732	781,468	(11.1)
Employment and Family Services	409,334	384,457	—	—	409,334	384,457	6.5
Natural Resources	121,714	119,188	—	—	121,714	119,188	2.1
Community and Economic Development	86,065	88,339	—	—	86,065	88,339	(2.6)
Business, Labor, and Agriculture	84,992	72,693	—	—	84,992	72,693	16.9
Public Education	2,169,071	2,033,153	—	—	2,169,071	2,033,153	6.7
Transportation	579,914	538,525	—	—	579,914	538,525	7.7
Interest on Long-term Debt	76,382	75,935	—	—	76,382	75,935	0.6
Student Assistance Programs	—	—	95,495	82,406	95,495	82,406	15.9
Unemployment Compensation	—	—	142,632	242,828	142,632	242,828	(41.3)
Water Loan Programs	—	—	8,648	6,730	8,648	6,730	28.5
Other Business-type Activities	—	—	141,374	131,164	141,374	131,164	7.8
Total Expenses	**6,953,422**	**6,644,346**	**388,149**	**463,128**	**7,341,571**	**7,107,474**	**3.3**
Excess Before Transfers	808,644	483,170	203,551	62,332	1,012,195	545,502	
Transfers	9,437	13,408	(9,437)	(13,408)	—	—	
Change in Net Assets	**818,081**	**496,578**	**194,114**	**48,924**	**1,012,195**	**545,502**	
Net Assets – Beginning as Adjusted	9,587,898	9,091,320	1,555,519	1,506,595	11,143,417	10,597,915	
Net Assets – Ending	**$ 10,405,979**	**$ 9,587,898**	**$ 1,749,633**	**$ 1,555,519**	**$ 12,155,612**	**$ 11,143,417**	**9.1 %**





Changes in Net Assets

This year the State received 54.3 percent of its revenues from state taxes and 31.4 percent of its revenues from grants and contributions, mostly from federal sources. In the prior year, state taxes accounted for 52.9 percent and grants and contributions were 33.2 percent of total revenues. Charges for goods and services such as licenses, permits, liquor sales, state parks, and court fees, combined with other miscellaneous collections, comprised 14.3 percent of total revenues in fiscal year 2005, compared with 13.9 percent in fiscal year 2004.

Governmental Activities

The State's total governmental revenues from all sources increased $634.6 million or 8.9 percent. Tax revenues increased $478.4 million or 11.8 percent. This increase in taxes reflects a continued improvement in economic conditions and is similar to the increase at the fund level. However, due to differences in measurement focus, timing of collections, and lack of historical accrued tax information, the increase at the government-wide level should not be used to predict future increases at the fund statement or budget level. With the exception of higher education and general government expenses, other significant changes in governmental activities' revenues and expenses mirror the changes in the General Fund at the fund level. For further discussion of these changes, see the section entitled "General Fund" on page 20. For fiscal year 2005, higher education expenses decreased by $115.2 million compared to the prior year, as the rate of completion of higher education building projects returned to levels prior to 2004. The increase in general government expenses of $52.5 million was primarily due to more non-capital outlay spending than in the prior year.

The table on the following page shows to what extent the State's governmental activities relied on taxes and other general revenues to cover all of their costs. For fiscal year 2005, state taxes and other general revenues covered 54.3 percent of expenses. The remaining $3.78 billion or 45.7 percent of the total expenses were generated through charges for services and grants.

State of Utah
Net Cost of Governmental Activities
for the Fiscal Year Ended June 30
(Expressed in Thousands)

	Program Expenses 2005	Less Program Revenues 2005	Net Program Costs 2005	Net Program Costs 2004	Program Revenues as a Percentage of Program Expenses 2005	Program Revenues as a Percentage of Program Expenses 2004
General Government	$ 240,091	$ (211,114)	$ 28,977	$ (3,556)	87.9 %	101.9 %
Human Services and Youth Corrections	573,154	(295,389)	277,765	294,438	51.5	49.3
Corrections, Adult	195,716	(2,954)	192,762	191,740	1.5	4.0
Public Safety	162,922	(97,840)	65,082	61,225	60.1	59.7
Courts	98,319	(47,120)	51,199	65,939	47.9	33.7
Health and Environmental Quality	1,461,016	(1,143,308)	317,708	260,628	78.3	80.6
Higher Education	694,732	(1,626)	693,106	780,429	0.2	0.1
Employment and Family Services	409,334	(360,374)	48,960	42,736	88.0	89.0
Natural Resources	121,714	(75,072)	46,642	41,738	61.7	65.6
Community and Economic Development	86,065	(43,473)	42,592	46,465	50.5	47.3
Business, Labor, and Agriculture	84,992	(68,338)	16,654	8,798	80.4	87.9
Public Education	2,169,071	(446,394)	1,722,677	1,630,847	20.6	20.0
Transportation	579,914	(383,794)	196,120	164,305	66.2	69.7
Interest on Long-term Debt	76,382	—	76,382	75,935		
Total Governmental Activities	**$ 6,953,422**	**$ (3,176,796)**	**$ 3,776,626**	**$ 3,661,667**	**45.7 %**	**45.1 %**

Business-type Activities
Revenues from the State's business-type activities increased $66.2 million or 12.6 percent from the prior year. This increase is largely due to an increase in collections in the Unemployment Compensation Fund of $32.8 million as higher claims in recent years resulted in increased employer taxes of $62.8 million, offset by lower federal reimbursements. Because Utah's employment situation improved over the prior year, unemployment benefit claims expenses dropped $100.2 million or 41.3 percent. This decrease was the primary reason for the overall decrease in business-type activities' expenditures of $75.3 million.

All of the State's business-type activities operate from program revenues, except for the Water Loan Programs and the Agriculture Loan Fund that by law receive dedicated sales taxes and the Community Impact Loan Fund that receives federal mineral lease revenues to provide additional capital for loans. Accounting standards require unemployment taxes that are collected from employers and deposited in the Unemployment Compensation Fund be reported as charges for services rather than taxes. Therefore, taxes in the business-type activities are comprised entirely of sales taxes in the water and agriculture loan programs.

FINANCIAL ANALYSIS OF THE STATE'S GOVERNMENTAL FUNDS

Fund Balances
At June 30, 2005, the State's governmental funds reported combined ending fund balances of $2.375 billion. Of this amount, $1.311 billion or 55.2 percent is reserved for specific programs by state law, by external constraints, or by contractual obligations. Unspent bond proceeds, balances of restricted accounts, and agencies' nonlapsing balances are included in reserved fund balance. An additional $682 million or 28.7 percent of total fund balances has been designated through internally imposed limitations on uses of certain funds. Note 11 on page 94 provides more details about reserved and designated fund balances at June 30, 2005. The remaining $382 million or 16.1 percent of fund balance is available for appropriation for the general purposes of the funds.

State of Utah
Governmental Fund Balances as of June 30, 2004
(Expressed in Thousands)

	General Fund	Uniform School Fund	Transportation Fund	Centennial Highway Fund	Trust Lands Fund	Nonmajor Funds	Total
Reserved	$ 262,360	$ 62,834	$ 46,488	$ —	$ 594,251	$ 344,573	$ 1,310,506
Unreserved Designated	366,992	262,614	45,560	635	—	5,950	681,751
Unreserved Undesignated	24,627	81,046	114,001	183,815	—	(21,121)	382,368
Total	**$ 653,979**	**$ 406,494**	**$ 206,049**	**$ 184,450**	**$ 594,251**	**$ 329,402**	**$ 2,374,625**
Percent change from prior year	34.6 %	29.9 %	(8.9)%	(15.2)%	20.7 %	51.8 %	21.7 %

General Fund

During fiscal year 2005, the General Fund's total fund balance increased $168.0 million or 34.6 percent. This increase was due in large part to sales tax revenues coming in $44.5 million greater than budgeted and to $74.6 million being set aside in the budget and designated by the Legislature for fiscal year 2006 appropriations. In contrast, in the prior year, the Legislature designated only $53.0 million for the next year's appropriations. The General Fund ended fiscal year 2005 with a "surplus" from unreserved and undesignated sources of $63.8 million. However, half, or $31.9 million, was transferred by law to the Budget Reserve Account ("Rainy Day Fund") and included in designated fund balance, and an additional $7.3 million was carried forward by law for other purposes as designated for specific appropriation in 2006. As a result, the General Fund ended the year with $24.6 million in unreserved/undesignated fund balance. Miscellaneous changes resulting from other designated and reserved sources account for the remaining change in fund balance. The Budget Reserve Account ended fiscal year 2005 with a balance of $105.6 million.

Total General Fund revenues increased $276.0 million or 7.1 percent from the prior year. Total tax collections increased $177.8 million or 10.3 percent. The major positive changes in tax revenues were in sales tax, which increased $143.3 million or 9.4 percent as Utah's economy continues to improve; and in oil, gas, and mining severance tax, which increased $22.2 million or 52.1 percent. The tax revenue that saw the greatest decrease was inheritance tax, which decreased $7.2 million or 69.6 percent from the prior year. Federal funding was the largest single factor in increasing non-tax revenues for the fiscal year, as federal mineral lease revenues increased $15.5 million or 23.0 percent, driven by higher oil prices; and federal contracts and grants climbed $35.0 million or 2.0 percent from the prior year, driven by demand for services and higher costs.

Total General Fund expenditures increased by $241.4 million or 6.4 percent. This fiscal year's increase in expenditures is evidence of a continued high demand for government services. The following areas were impacted most:

- *Health and Environmental Quality* – Total expenditures in this category jumped $116.0 million, primarily due to increased Medicaid program costs resulting from increased caseloads and pharmaceutical costs.
- *Higher Education* – Total expenditures in this category were up $36.7 million, primarily due to additional state appropriations of new state funds for employee health, dental and retirement rate increases; salary increases; and enrollment growth.
- *Human Services and Youth Corrections* – Total expenditures in this category increased $24.4 million or 4.4 percent, largely due to increased funding for services for people with disabilities and for child and family services.

Budgetary Highlights – General Fund

The Legislature adopted the initial fiscal year 2005 budget during the 2004 General Session. The original General Fund budget at the start of fiscal year 2005, excluding department-specific revenue sources such as federal grants, departmental collections, and including miscellaneous transfers, was 5.1 percent higher than the final fiscal year 2004 budget. The Legislature also had to address critical and mandated program increases, such as providing the State's matching share of projected increases in caseloads and pharmacy inflation for the Medicaid program. Other increases included funding increased health, dental, and retirement rates for employees.

The budget was again addressed during the 2005 General Session of the Legislature (January to March 2005). General revenue estimates had increased $100.5 million over those adopted in the 2004 General Session primarily due to increased revenue estimates of sales and use tax. Increased revenue estimates and other additional miscellaneous revenue sources allowed the Legislature to designate $74.6 million of expected excess revenue for fiscal year 2006 appropriations.

Final budgets of department-specific revenue sources increased over original budgets mostly due to an increase in federal mineral lease revenues and miscellaneous revenues due to intrafund transactions. Increased federal funds and corresponding expenditures resulted in the majority of the increase between original and final expenditure budgets. Final budgets for many of the departmental-specific revenue sources and related expenditures such as federal grants, departmental collections, and miscellaneous revenues, are generally revised based on actual collections. The difference between final budgeted expenditures and actual expenditures is primarily due to nonlapsing and unspent restricted funds that will be carried forward to the next year. However, $1.1 million of unspent budgeted dollars were lapsed back to the General Fund by agencies.

Uniform School Fund

The Uniform School Fund's fund balance increased $92.6 million or 29.5 percent from the prior year. Corporate tax receipts increased $43.4 million or 26.2 percent compared to the prior year, individual income tax receipts increased $239.8 million or 14.1 percent, and federal funding increased by $33.3 million or 10.7 percent. Expenditures for public education increased by $130.9 million or 6.4 percent, as the Legislature increased the budget for enrollment growth and provided for increased costs related to benefits for educators and staff. In addition, the Legislature transferred out approximately $166.1 million more than in the prior year, primarily for higher education programs. The Uniform School Fund ended the year with a "surplus" from unreserved and undesignated sources of $108.1 million. Of that amount, $27.0 million or 25.0 percent was transferred by law to the Education

Budget Reserve Account, resulting in a final unreserved and undesignated fund balance of $81.0 million. Established by the Legislature in 2003, the Education Budget Reserve ended fiscal year 2005 with a balance of $40.5 million.

Transportation Fund

Fund balance in the Transportation Fund decreased $20.0 million or 8.9 percent from the prior year. Motor and special fuels tax revenue increased by $8.6 million or 2.6 percent. Federal aeronautics revenue increased $8.6 million or 33.3 percent largely due to completed work on local government airport projects.

Total expenditures increased $65.7 million or 10.7 percent, primarily in construction expenditures. Authorized federal funding for highway construction remains relatively stable from year to year. However, the spending of state and federal revenue reflects the timing of highway construction projects, which is impacted by a variety of circumstances such as environmental studies or weather. Also, the Department of Transportation has discretion on allocating federal funds among projects, which impacts the amount of federal revenue reported in the Transportation Fund and Centennial Highway Fund.

Centennial Highway Fund

Fund balances in the Centennial Highway Fund decreased by $33.0 million or 15.2 percent from the prior year. Revenues in the fund increased $11.5 million or 18.6 percent, mostly due to federal revenues on applicable federal participating highway projects coming in $9.9 million or 28.8 percent higher than in the previous year. Expenditures in the fund decreased by $44.7 million or 22.6 percent, primarily due to fewer bond proceeds being spent on highway projects in fiscal year 2005 than in the prior year.

Trust Lands Fund

The fund balance of the permanent Trust Lands Fund increased by $102.1 million or 20.7 percent due to revenues generated from land use, sales of trust lands, and investment income. The permanent fund also generated $13.9 million of cash investment earnings for the Uniform School Fund that is earmarked for distribution to local school districts. The principal in the fund is held in perpetuity with earnings restricted primarily to support public education.

FINANCIAL ANALYSIS OF THE STATE'S PROPRIETARY FUNDS

Student Assistance Programs

The Student Assistance Programs finished the year with an increase of $23.9 million or 10.8 percent in net assets. Rising tuition and other student costs, along with rising enrollments at the State's colleges and universities, created more demand for student loans than in prior years. As a result, loans receivable increased $198.2 million or 15.8 percent over last year. Of total net assets of $245.0 million, $160.7 million is restricted for use within the Student Assistance Programs by bond covenants or by federal law.

Unemployment Compensation Fund

The State's unemployment rate has decreased compared to the rate one year ago. The improving employment situation resulted in a $100.2 million or 41.3 percent decrease in benefit payments from the prior year. This was the first time since fiscal year 2000 that employer taxes and other revenues exceeded benefit payments. Assets were sufficient to handle the demand for benefits, and net assets increased $100.6 million or 24.4 percent, to $512.3 million. The entire balance of net assets in this fund is restricted for paying unemployment benefits by state and federal law.

Water Loan Programs

The net assets of the Water Loan Programs increased $24.2 million or 4.5 percent from the prior year. Additional capital for loans was provided from $14.3 million in dedicated sales tax revenues and $7.5 million in federal grants, in addition to net operating revenues in the fund. Loans receivable for the programs increased $33.0 million or 7.5 percent over the prior year. Of total net assets of $563.7 million, $218.0 million is restricted for use within the Water Loan Programs by bond covenants or by federal grant requirements.

CAPITAL ASSET AND LONG-TERM DEBT ADMINISTRATION

Capital Assets

The State's capital assets increased a net $340.6 million during the year. The change consisted of net increases in infrastructure (highways) of $284.0 million; land and related assets of $27.4 million; and buildings, improvements, and construction in progress of $35.7 million. Machinery and equipment decreased a net $6.5 million during the year. Many buildings financed by the State are actually owned by the colleges and universities, which are discrete component units of the State. Therefore, while the capital assets are on the component unit's financial statements, any outstanding debt issued by the State to finance construction of those assets is reported as a liability of the State's governmental activities. This in turn reduces unrestricted net assets. As of June 30, 2005, the State had $109.4 million of outstanding debt related to capital assets of component units.

At June 30, 2005, the State had $283.7 million in commitments for building projects in its capital projects funds, and $631.9 million ($418.4 million in the Centennial Highway Fund and $213.5 million in the Transportation Fund) in commitments for highway construction and improvement projects. Funding for the commitments will come from existing resources in these funds and from future bond proceeds and appropriations.

The State has adopted an allowable alternative to reporting depreciation for roads and bridges (infrastructure assets) maintained by the Utah Department of Transportation (UDOT). Under this alternative method, referred to as the "modified approach," UDOT must maintain an asset management system and demonstrate that the infrastructure is being preserved at or above established condition levels. Infrastructure assets accounted for under the modified approach are not depreciated, and maintenance and preservation costs are expensed.

The State's established condition level for roads is to maintain 50 percent with a rating of "fair" or better and no more than 15 percent with a "very poor" rating. The most recent condition assessment, completed for calendar year 2004, indicated that 74.7 percent of the roads were in "fair" or better condition. Only 6.2 percent of the roads assessed were in "very poor" condition. These results are similar to calendar year 2003, when 74.8 percent of the roads were assessed as "fair" or better, and 6.4 percent assessed were in "very poor" condition.

The State's established condition level for bridges is to maintain 50 percent with a rating of "good" and no more than 15 percent of bridges with a "poor" rating. The most recent condition assessment, completed in April 2005, indicated that 71.0 percent and 3.0 percent of bridges were in "good" and "poor" condition, respectively. These results reflect a slight improvement over the prior year.

During fiscal year 2005, the State spent $362.2 million to maintain and preserve roads and bridges. This amount is 36.0 percent above the estimated amount of $266.3 million needed to maintain these assets at established condition levels.

More information about capital assets is included in Note 8 on page 81, and more detailed information on the State's modified approach for reporting infrastructure is presented in the Required Supplementary Information on page 112.

Long-term Debt

The *Constitution of Utah* authorizes general obligation borrowing only as approved by the Legislature. The *Constitution* also limits outstanding state general obligation debt to 1.5 percent of the fair market value of all taxable property in the State, while state law further restricts outstanding state general obligation debt to no more than 45 percent of the appropriations limit. As of June 30, 2005, the State was $249.8 million below the statutory debt limit and $1.196 billion below the debt limit established in the *Constitution*. Revenue bonds are not backed by the general taxing authority of the State, but are payable solely from specific fees or loan repayments as pledged in the bond indentures.

State of Utah
Net Outstanding Bonded Debt as of June 30
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2005	2004	2005	2004	2005	2004	2004 to 2005
General Obligation Bonds	$ 1,587.8	$ 1,588.8	$ —	$ —	$ 1,587.8	$ 1,588.8	(0.1)%
Revenue Bonds:							
State Building Ownership Auth.	311.6	338.9	31.2	23.5	342.8	362.4	(5.4)
Student Assistance Programs	—	—	1,544.8	1,397.5	1,544.8	1,397.5	10.5
Water Loan Progams	—	—	—	1.1	—	1.1	(100.0)
Total Bonds Payable	**$ 1,899.4**	**$ 1,927.7**	**$ 1,576.0**	**$ 1,422.1**	**$ 3,475.4**	**$ 3,349.8**	**3.7 %**

The State issued $140.6 million of general obligation bonds during the fiscal year. Of the general obligation bonds issued, $93.6 million was for highway construction and $47 million was for capital facility construction. In addition, the State issued a total of $205.8 million of revenue bonds. Of the revenue bonds issued, $54.7 million was to provide for capital facility construction and to advance refund portions of prior revenue bonds to take advantage of lower interest rates, and $151.1 was to provide capital for purchasing student loans in the Student Assistance programs.

The State's active management of its resources has helped the State maintain its triple-A rating on general obligation bonds, the highest possible rating, and double-A rating on State Building Ownership Authority lease revenue bonds from all three national rating agencies. These ratings save millions of dollars in interest each year because the State is able to obtain very favorable interest rates on new debt. Note 10 beginning on page 85 contains more information about the State's outstanding debt.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

Tax revenues are expected to continue to increase in fiscal year 2006. Consequently, original general revenue estimates for the General Fund and Uniform School Fund for fiscal year 2006 were almost identical, in total, to actual revenues for fiscal year 2005. The Legislature balanced the 2006 budget mostly by using anticipated 2005 carryover funds of $117.7 million and utilizing other miscellaneous sources. The Legislature provided increased funding for Medicaid, roads and highways, public and higher education, and increased benefit costs for State employees. The State also provided a 2.5 percent cost-of-living adjustment to all state employees as well as an additional 2.75 percent or 5.5 percent compensation for market comparability adjustments for approximately 14,000 state employees.

Revenue collections to date in fiscal year 2006 are in line with original estimates.

Utah's economy is expected to remain stable in the near future. The average unemployment rate is expected to decline in 2005 to 4.7 percent, down from the average 2004 rate of 5.2 percent. Taxable retail sales are expected to increase 7.6 percent by the end of 2005, and growth in personal income is expected to be 7.3 percent for the same period. Because these indicators are measured on a calendar-year basis, the impact on the State budget will not be fully realized until well into fiscal year 2006.

CONTACTING THE STATE'S DIVISION OF FINANCE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Division of Finance, Financial Reporting Section at (801) 538-3082 or visit our Web site at: www.finance.utah.gov.

The preceding discussion and analysis focuses on the State's primary government operations. With the exception of a few nonmajor component units, the State's component units each issue separate audited financial statements that include their respective management's discussion and analysis. Component unit statements may be obtained from their respective administrative offices or from the Utah State Auditor's Office, Utah State Capitol Complex, East Office Building, Suite E310, Salt Lake City, UT 84114.

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Statement of Net Assets

June 30, 2005 (Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and Cash Equivalents	$ 997,993	$ 752,333	$ 1,750,326	$ 1,168,714
Investments	1,103,883	188,335	1,292,218	804,640
Taxes Receivable, net	693,516	—	693,516	—
Accounts and Interest Receivable, net	485,638	127,762	613,400	318,588
Amounts Due From:				
Component Units	24,676	—	24,676	—
Prepaid Items	2,252	2,490	4,742	17,602
Inventories	15,396	19,604	35,000	40,258
Internal Balances	6,651	(6,651)	—	—
Restricted Investments	—	88,725	88,725	546,715
Deferred Charges	4,480	22,089	26,569	35,004
Notes/Loans/Mortgages/Pledges Receivable, net	18,065	2,181,299	2,199,364	1,004,763
Other Assets	5,570	—	5,570	12,597
Capital Assets:				
Land and Related Non-depreciable Assets	743,977	22,314	766,291	124,838
Infrastructure	7,545,349	—	7,545,349	—
Construction in Progress	594,099	479	594,578	137,483
Buildings, Equipment, and Other Depreciable Assets	1,658,178	57,919	1,716,097	3,656,024
Less Accumulated Depreciation	(680,962)	(18,558)	(699,520)	(1,628,584)
Total Capital Assets	9,860,641	62,154	9,922,795	2,289,761
Total Assets	13,218,761	3,438,140	16,656,901	6,238,642
LIABILITIES				
Accounts Payable and Accrued Liabilities	603,948	30,249	634,197	236,019
Amounts Due to:				
Primary Government	—	—	—	24,676
Securities Lending	—	—	—	42,345
Unearned Revenue	95,232	9,601	104,833	71,776
Deposits	—	122	122	90,965
Long-term Liabilities (Note 10)				
Due Within One Year	231,137	151,923	383,060	238,860
Due in More Than One Year	1,882,465	1,496,612	3,379,077	1,832,193
Total Liabilities	2,812,782	1,688,507	4,501,289	2,536,834
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	8,197,279	28,419	8,225,698	1,782,291
Restricted for:				
Transportation	280,496	—	280,496	—
Public Education – Expendable	554,234	—	554,234	—
Public Education – Nonexpendable	594,251	—	594,251	—
Higher Education – Expendable	—	—	—	557,547
Higher Education – Nonexpendable	—	—	—	413,754
Debt Service	5,331	10	5,341	167,813
Unemployment Compensation and Insurance Programs	4,814	512,260	517,074	70,838
Loan Programs	2,478	415,845	418,323	—
Other Purposes – Expendable	76,919	—	76,919	41
Unrestricted	690,177	793,099	1,483,276	709,524
Total Net Assets	$ 10,405,979	$ 1,749,633	$ 12,155,612	$ 3,701,808

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

Statement of Activities

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

Activities	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental:				
General Government	$ 240,091	$ 99,303	$ 111,811	$ —
Human Services and Youth Corrections	573,154	13,193	282,196	—
Corrections, Adult	195,716	2,138	816	—
Public Safety	162,922	31,594	66,246	—
Courts	98,319	46,468	652	—
Health and Environmental Quality	1,461,016	108,406	1,034,902	—
Higher Education	694,732	282	1,344	—
Employment and Family Services	409,334	6,414	353,960	—
Natural Resources	121,714	44,842	30,230	—
Community and Economic Development	86,065	4,420	39,053	—
Business, Labor, and Agriculture	84,992	61,637	6,701	—
Public Education	2,169,071	59,213	387,181	—
Transportation	579,914	137,934	121,024	124,836
Interest and Other Charges on Long-term Debt	76,382	—	—	—
Total Governmental Activities	6,953,422	615,844	2,436,116	124,836
Business-type:				
Student Assistance Programs	95,495	87,375	29,520	—
Unemployment Compensation	142,632	221,298	24,044	—
Water Loan Programs	8,648	9,796	8,616	—
Other Business-type Activities	141,374	189,114	2,993	—
Total Business-type Activities	388,149	507,583	65,173	0
Total Primary Government	$ 7,341,571	$ 1,123,427	$ 2,501,289	$ 124,836
Component Units:				
Utah Housing Corporation	$ 71,223	$ 78,121	$ —	$ —
Public Employees Health Program	483,552	479,887	5,578	—
University of Utah	1,826,662	1,345,757	375,554	33,444
Utah State University	416,469	110,663	166,244	5,022
Nonmajor Colleges and Universities	672,450	266,975	144,630	53,218
Nonmajor Component Units	53,138	22,733	1,250	—
Total Component Units	$ 3,523,494	$ 2,304,136	$ 693,256	$ 91,684

General Revenues:
- Taxes:
  - Sales and Use Tax
  - Individual Income Tax Imposed for Education
  - Corporate Tax Imposed for Education
  - Motor and Special Fuel Taxes Imposed for Transportation
  - Other Taxes
    - Total Taxes
- Unrestricted Investment Income
- State Funding for Colleges and Universities
- State Funding for Other Component Units
- Gain on Sale of Capital Assets
- Miscellaneous

Permanent Endowments Contributions

Transfers—Internal Activities

Total General Revenues and Transfers

Change in Net Assets

Net Assets—Beginning

Adjustments to Beginning Net Assets

Net Assets—Beginning as Adjusted

Net Assets—Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (28,977)	$ —	$ (28,977)	$ —
(277,765)	—	(277,765)	—
(192,762)	—	(192,762)	—
(65,082)	—	(65,082)	—
(51,199)	—	(51,199)	—
(317,708)	—	(317,708)	—
(693,106)	—	(693,106)	—
(48,960)	—	(48,960)	—
(46,642)	—	(46,642)	—
(42,592)	—	(42,592)	—
(16,654)	—	(16,654)	—
(1,722,677)	—	(1,722,677)	—
(196,120)	—	(196,120)	—
(76,382)	—	(76,382)	—
(3,776,626)	0	(3,776,626)	0
—	21,400	21,400	—
—	102,710	102,710	—
—	9,764	9,764	—
—	50,733	50,733	—
0	184,607	184,607	0
(3,776,626)	184,607	(3,592,019)	0
—	—	—	6,898
—	—	—	1,913
—	—	—	(71,907)
—	—	—	(134,540)
—	—	—	(207,627)
—	—	—	(29,155)
0	0	0	(434,418)
1,697,720	14,874	1,712,594	—
2,001,286	—	2,001,286	—
209,403	—	209,403	—
335,625	—	335,625	—
275,755	—	275,755	—
4,519,789	14,874	4,534,663	0
17,690	3,844	21,534	1,061
—	—	—	640,401
—	—	—	36,164
23,010	—	23,010	—
24,781	226	25,007	—
—	—	—	17,386
9,437	(9,437)	—	—
4,594,707	9,507	4,604,214	695,012
818,081	194,114	1,012,195	260,594
9,453,007	1,553,040	11,006,047	3,427,638
134,891	2,479	137,370	13,576
9,587,898	1,555,519	11,143,417	3,441,214
$10,405,979	$ 1,749,633	$ 12,155,612	$ 3,701,808

Balance Sheet
Governmental Funds

June 30, 2005 (Expressed in Thousands)

		Special Revenue		
	General	Uniform School	Transportation	Centennial Highway
ASSETS				
Cash and Cash Equivalents	$ 313,774	$ 168,885	$ 196,453	$ 87,326
Investments	134,841	27,730	36,768	77,649
Receivables:				
Accounts, net	360,323	37,954	43,928	18,946
Accrued Interest	42	—	—	—
Accrued Taxes, net	249,872	384,687	58,229	728
Notes/Mortgages, net	8,951	3,783	376	—
Due From Other Funds	19,287	2,395	345	—
Due From Component Units	—	—	—	—
Inventories	—	—	11,473	—
Interfund Loans Receivable	32,520	13	—	—
Other Assets	—	—	—	—
Total Assets	$ 1,119,610	$ 625,447	$ 347,572	$ 184,649
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable and Accrued Liabilities	$ 361,551	$ 59,406	$ 110,848	$ 162
Due To Other Funds	12,323	651	4,196	—
Due To Component Units	—	—	—	—
Deferred Revenue	91,757	158,896	26,479	37
Total Liabilities	465,631	218,953	141,523	199
Fund Balances:				
Reserved for:				
Nonlapsing Appropriations and Encumbrances	113,427	40,225	2,263	—
Specific Purposes by Statute	134,040	22,609	44,225	—
Interfund Loans Receivable	14,893	—	—	—
Capital Projects	—	—	—	—
Debt Service	—	—	—	—
Unreserved Designated	366,992	262,614	45,560	635
Unreserved Designated, reported in nonmajor:				
Capital Projects Funds	—	—	—	—
Debt Service Funds	—	—	—	—
Unreserved Undesignated	24,627	81,046	114,001	183,815
Unreserved Undesignated, reported in nonmajor:				
Special Revenue Funds	—	—	—	—
Capital Projects Funds	—	—	—	—
Total Fund Balances	653,979	406,494	206,049	184,450
Total Liabilities and Fund Balances	$ 1,119,610	$ 625,447	$ 347,572	$ 184,649

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

Permanent Trust Lands	Nonmajor Governmental Funds	Total Governmental Funds
$ 557	$ 166,182	$ 933,177
581,901	244,994	1,103,883
17,115	3,140	481,406
1,478	81	1,601
—	—	693,516
4,800	155	18,065
1,659	1,673	25,359
—	26,179	26,179
—	—	11,473
—	—	32,533
5,570	—	5,570
$ 613,080	$ 442,404	$ 3,332,762
$ 362	$ 57,749	$ 590,078
88	10,981	28,239
—	1,503	1,503
18,379	42,769	338,317
18,829	113,002	958,137
—	283,718	439,633
594,251	40,276	835,401
—	—	14,893
—	13,824	13,824
—	6,755	6,755
—	—	675,801
—	69	69
—	5,881	5,881
—	—	403,489
—	50,075	50,075
—	(71,196)	(71,196)
594,251	329,402	2,374,625
$ 613,080	$ 442,404	$ 3,332,762

Reconciliation of the Balance Sheet — Governmental Funds To the Statement of Net Assets

June 30, 2005 (Expressed in Thousands)

Total Fund Balances for Governmental Funds ………………………………………		$ 2,374,625
Total net assets reported for governmental activities in the Statement of Net Assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds: (See Note 8)		
Land and Related Non-depreciable Assets	$ 743,960	
Infrastructure, Non-depreciable	7,545,349	
Construction-In-Progress	593,573	
Buildings, Equipment, and Other Depreciable Assets	1,474,872	
Accumulated depreciation	(572,181)	9,785,573
Some of the State's earned revenues will be collected after yearend, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. …..…………………………………………………...		244,456
Internal service funds are used by management to charge the costs of certain activities, such as insurance, information technology, and fleet operations to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. ....….................…		66,417
Bond issue costs are reported as current expenditures in the funds. However, issue costs are deferred and amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Assets. …………………………..…		3,953
Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds: (See Note 10)		
General Obligation and Revenue Bonds Payable	(1,822,406)	
Unamortized Premiums	(101,329)	
Amount Deferred on Refunding	25,287	
Accrued Interest Payable	(1,637)	
Compensated Absences	(140,029)	
Capital Leases	(20,931)	
Contracts Payable	(8,000)	(2,069,045)
Total Net Assets of Governmental Activities ………………………………………..		$ 10,405,979

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

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State of Utah

Statement Of Revenues, Expenditures, And Changes In Fund Balances Governmental Funds

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

	General	Special Revenue: Uniform School	Special Revenue: Transportation	Special Revenue: Centennial Highway
REVENUES				
Taxes:				
Sales and Use Tax	$ 1,664,352	$ —	$ 29,667	$ 5,617
Individual Income Tax	—	1,946,593	—	—
Corporate Tax	—	209,304	—	—
Motor and Special Fuels Tax	—	—	336,417	—
Other Taxes	234,710	27,241	9,313	—
Total Taxes	1,899,062	2,183,138	375,397	5,617
Other Revenues:				
Federal Contracts and Grants	1,776,555	344,638	197,328	44,282
Charges for Services/Royalties	238,181	1,314	25,661	—
Licenses, Permits, and Fees	17,866	4,546	65,072	20,422
Federal Mineral Lease	82,704	—	—	—
Federal Aeronautics	—	—	34,416	—
Intergovernmental	—	—	—	—
Investment Income	16,483	14,392	4,706	3,137
Miscellaneous and Other	148,015	336	16,982	—
Total Revenues	4,178,866	2,548,364	719,562	73,458
EXPENDITURES				
Current:				
General Government	161,728	—	—	—
Human Services and Youth Corrections	575,046	—	—	—
Corrections, Adult	193,442	—	—	—
Public Safety	161,350	—	—	—
Courts	106,128	—	—	—
Health and Environmental Quality	1,456,282	—	—	—
Higher Education – State Administration	39,121	—	—	—
Higher Education – Colleges and Universities	626,026	—	—	—
Employment and Family Services	415,892	—	—	—
Natural Resources	120,398	—	—	—
Community and Economic Development	86,335	—	—	—
Business, Labor, and Agriculture	74,919	—	—	—
Public Education	—	2,168,798	—	—
Transportation	—	—	678,784	152,953
Capital Outlay	—	—	—	—
Debt Service:				
Principal Retirement	—	—	—	—
Interest and Other Charges	—	—	—	—
Total Expenditures	4,016,667	2,168,798	678,784	152,953
Excess Revenues Over (Under) Expenditures	162,199	379,566	40,778	(79,495)
OTHER FINANCING SOURCES (USES)				
General Obligation Bonds Issued	—	—	—	47,050
Revenue Bonds Issued	—	—	—	—
Refunding Bonds Issued	—	—	—	—
Premium on Bonds Issued	—	—	—	2,950
Payment to Refunded Bond Escrow Agent	—	—	—	—
Sale of Trust Lands	—	—	—	—
Transfers In	294,313	2,980	48,406	134,345
Transfers Out	(288,486)	(288,872)	(109,216)	(137,851)
Total Other Financing Sources (Uses)	5,827	(285,892)	(60,810)	46,494
Net Change in Fund Balances	168,026	93,674	(20,032)	(33,001)
Fund Balances – Beginning	485,953	313,886	226,081	217,451
Adjustments to Beginning Fund Balances	—	(1,066)	—	—
Fund Balances – Beginning As Adjusted	485,953	312,820	226,081	217,451
Fund Balances – Ending	$ 653,979	$ 406,494	$ 206,049	$ 184,450

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

Permanent Trust Lands	Nonmajor Governmental Funds	Total Governmental Funds
$ —	$ —	$ 1,699,636
—	—	1,946,593
—	—	209,304
—	—	336,417
—	4,451	275,715
0	4,451	4,467,665
—	3,983	2,366,786
57,499	8,343	330,998
—	13,476	121,382
—	—	82,704
—	—	34,416
—	4,104	4,104
26,521	6,299	71,538
—	66,375	231,708
84,020	107,031	7,711,301
—	17,163	178,891
—	1,825	576,871
—	4,588	198,030
—	1,722	163,072
—	1,679	107,807
—	5,336	1,461,618
—	—	39,121
—	11,061	637,087
—	1,145	417,037
—	2,797	123,195
—	1,286	87,621
—	10,196	85,115
—	98	2,168,896
—	548	832,285
—	139,488	139,488
—	183,911	183,911
—	89,768	89,768
0	472,611	7,489,813
84,020	(365,580)	221,488
—	93,585	140,635
—	18,430	18,430
—	22,066	22,066
—	9,089	12,039
—	(23,212)	(23,212)
18,070	—	18,070
22	372,923	852,989
—	(14,967)	(839,392)
18,092	477,914	201,625
102,112	112,334	423,113
492,139	217,424	1,952,934
—	(356)	(1,422)
492,139	217,068	1,951,512
$ 594,251	$ 329,402	$ 2,374,625

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds To the Statement of Activities

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

Net Change in Fund Balances – Total Governmental Funds		$ 423,113
The change in net assets reported for governmental activities in the Statement of Net Assets is different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The primary government also constructs buildings for component units. When the buildings are completed they are "transferred" to component units and are reported as expenses in the Statement of Activities. This is the amount by which capital outlays $419,888 exceeded depreciation $(52,531) and buildings "transferred" to component units $(18,536) in the current period. (See Note 8)		348,821
In the Statement of Activities, only the gain on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sales increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.		(5,779)
Net effect of revenues reported on the accrual basis in the Statement of Activities that do not provide current financial resources and thus are not reported as revenues in the funds until available.		49,580
Internal service funds are used by management to charge the costs of certain activities, such as insurance, information technology, and fleet operations, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		2,843
Bond proceeds and capital leases provide current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayments of bond and capital lease principal are expenditures in the governmental funds, but reduce liabilities in the Statement of Net Assets: (See Note 10)		
Bonds Issued	$ (181,131)	
Premiums on Bonds Issued	(12,039)	
Payment to Refund Bonds	21,189	
Amount Deferred on Refunding	2,023	
Payment of Bond Principal	152,326	
Capital Lease Payments	1,971	(15,661)
Expenditures are recognized in the governmental funds when paid or due for: items not normally paid with available financial resources; interest on long-term debt unless certain conditions are met; and bond issue costs. However, the Statement of Activities is presented on the accrual basis and expenses and liabilities are reported when incurred, regardless of when financial resources are available or expenditures are paid or due. This adjustment combines the net changes of the following balances:		
Compensated Absences Expenses	(435)	
Accrued Interest on Bonds Payable	(7)	
Amortization of Bond Premiums	19,304	
Amortization of Amount Deferred on Refunding	(3,702)	
Deferred Bond Issue Costs	4	15,164
Change in Net Assets of Governmental Activities		$ 818,081

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

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Statement Of Net Assets
Proprietary Funds

June 30, 2005 (Expressed in Thousands)

	Business-type Activities – Enterprise Funds			
	Student Assistance Programs	Unemployment Compensation Fund	Water Loan Programs	Nonmajor Enterprise Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 84,013	$ 445,446	$ 80,407	$ 142,467
Investments	187,285	—	—	—
Receivables:				
Accounts, net	18,334	75,412	133	7,014
Accrued Interest	15,029	—	4,505	2,923
Notes/Loans/Mortgages, net	199,710	—	27,817	15,367
Due From Other Funds	—	—	32	9,611
Interfund Loans Receivable	—	—	—	20
Prepaid Items	2,465	—	—	25
Inventories	—	—	—	19,604
Deferred Charges	—	—	—	—
Total Current Assets	506,836	520,858	112,894	197,031
Noncurrent Assets:				
Restricted Investments	88,725	—	—	—
Investments	—	—	—	1,050
Prepaid Items	—	—	—	—
Notes/Loans/Mortgages Receivables, net	1,254,576	—	447,209	236,620
Accrued Interest Receivable	—	—	3,888	524
Deferred Charges	22,089	—	—	—
Interfund Loans Receivable	—	—	—	20
Capital Assets:				
Land	—	—	—	22,314
Infrastructure	—	—	—	204
Buildings and Improvements	11,611	—	—	32,213
Machinery and Equipment	1,571	—	—	12,320
Construction in Progress	—	—	—	479
Less Accumulated Depreciation	(1,884)	—	—	(16,674)
Total Capital Assets	11,298	0	0	50,856
Total Noncurrent Assets	1,376,688	0	451,097	289,070
Total Assets	1,883,524	520,858	563,991	486,101
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	14,766	1,284	173	12,124
Deposits	—	122	—	—
Due To Other Funds	—	4,155	87	12,215
Interfund Loans Payable	—	—	—	—
Unearned Revenue	1,973	—	17	1,840
Policy Claims and Uninsured Liabilities	650	3,037	—	—
Contracts/Notes Payable	—	—	—	—
Revenue Bonds Payable	144,920	—	—	1,213
Arbitrage Liability	2,103	—	—	—
Total Current Liabilities	164,412	8,598	277	27,392
Noncurrent Liabilities:				
Accrued Liabilities	1,779	—	—	—
Unearned Revenue	5,771	—	—	—
Interfund Loans Payable	—	—	—	—
Policy Claims and Uninsured Liabilities	2,338	—	—	—
Contracts/Notes Payable	—	—	—	—
Revenue Bonds Payable	1,399,958	—	—	30,008
Arbitrage Liability	64,308	—	—	—
Total Noncurrent Liabilities	1,474,154	0	0	30,008
Total Liabilities	1,638,566	8,598	277	57,400
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	908	—	—	27,511
Restricted for:				
Unemployment Compensation and Insurance Programs	—	512,260	—	—
Loan Programs	160,748	—	218,011	37,086
Debt Service	—	—	10	—
Unrestricted (Deficit)	83,302	—	345,693	364,104
Total Net Assets	$ 244,958	$ 512,260	$ 563,714	$ 428,701

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

Total	Governmental Activities – Internal Service Funds
$ 752,333	$ 64,816
187,285	—
100,893	2,471
22,457	—
242,894	—
9,643	13,589
20	—
2,490	1,905
19,604	3,923
—	4
1,337,619	86,708
88,725	—
1,050	—
—	347
1,938,405	—
4,412	—
22,089	523
20	—
22,314	17
204	246
43,824	7,323
13,891	175,737
479	526
(18,558)	(108,781)
62,154	75,068
2,116,855	75,938
3,454,474	162,646
28,347	11,085
122	—
16,457	5,006
—	17,660
3,830	1,206
3,687	11,223
—	4
146,133	46
2,103	—
200,679	46,230
1,779	—
5,771	165
—	14,913
2,338	33,450
—	523
1,429,966	948
64,308	—
1,504,162	49,999
1,704,841	96,229
28,419	74,064
512,260	4,814
415,845	2,478
10	—
793,099	(14,939)
$ 1,749,633	$ 66,417

Statement Of Revenues, Expenses, And Changes In Fund Net Assets
Proprietary Funds

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

	Business-type Activities – Enterprise Funds			
	Student Assistance Programs	Unemployment Compensation Fund	Water Loan Programs	Nonmajor Enterprise Funds
OPERATING REVENUES				
Sales and Charges for Services/Premiums	$ 41,042	$ 221,298	$ 459	$ 179,925
Fees and Assessments	2,131	—	—	3,553
Interest on Notes/Mortgages	42,745	—	9,337	5,242
Federal Reinsurance and Allowances/Reimbursements	20,883	2,152	—	—
Miscellaneous	1,457	—	—	394
Total Operating Revenues	108,258	223,450	9,796	189,114
OPERATING EXPENSES				
Administration	3,695	—	—	24,345
Purchases, Materials, and Services for Resale	—	—	—	102,127
Grants	—	—	8,260	707
Rentals and Leases	—	—	—	1,639
Maintenance	—	—	—	2,046
Interest	38,398	—	—	—
Depreciation	434	—	—	2,110
Student Loan Servicing and Related Expenses	24,127	—	—	—
Payment to Lenders for Guaranteed Claims	21,482	—	—	—
Benefit Claims and Unemployment Compensation	—	142,632	—	—
Supplies and Other Miscellaneous	7,359	—	351	7,214
Total Operating Expenses	95,495	142,632	8,611	140,188
Operating Income (Loss)	12,763	80,818	1,185	48,926
NONOPERATING REVENUES (EXPENSES)				
Investment Income	8,637	21,892	2,496	2,547
Federal Grants	—	—	7,500	2,910
Gain (Loss) on Sale of Capital Assets	—	—	—	(64)
Tax Revenues	—	—	14,349	525
Interest Expense	—	—	(37)	(1,176)
Refunds Paid to Federal Government	—	—	—	—
Other Revenues (Expenses)	—	—	89	191
Total Nonoperating Revenues (Expenses)	8,637	21,892	24,397	4,933
Income (Loss) before Transfers	21,400	102,710	25,582	53,859
Transfers In	—	—	1,582	36,937
Transfers Out	—	(2,160)	(2,950)	(42,846)
Change in Net Assets	21,400	100,550	24,214	47,950
Net Assets – Beginning	221,079	411,710	539,500	380,751
Adjustments to Beginning Net Assets	2,479	—	—	—
Net Assets – Beginning as Adjusted	223,558	411,710	539,500	380,751
Net Assets – Ending	$ 244,958	$ 512,260	$ 563,714	$ 428,701

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

Total	Governmental Activities – Internal Service Funds
$ 442,724	$ 179,352
5,684	—
57,324	—
23,035	—
1,851	96
530,618	179,448
28,040	34,113
102,127	62,550
8,967	409
1,639	5,136
2,046	17,505
38,398	—
2,544	20,216
24,127	—
21,482	—
142,632	11,250
14,924	22,039
386,926	173,218
143,692	6,230
35,572	1,510
10,410	—
(64)	(722)
14,874	—
(1,213)	(41)
—	(67)
280	93
59,859	773
203,551	7,003
38,519	658
(47,956)	(4,818)
194,114	2,843
1,553,040	63,574
2,479	—
1,555,519	63,574
$ 1,749,633	$ 66,417

Statement Of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

	Business-type Activities – Enterprise Funds			
	Student Assistance Programs	Unemployment Compensation Fund	Water Loan Programs	Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers/Loan Interest/Fees/Premiums ...	$ 54,382	$ 203,730	$ 9,370	$ 211,480
Receipts from Loan Maturities	368,773	—	30,327	21,115
Receipts Federal Reinsurance & Allowances/Reimburse ..	43,858	2,183	—	—
Receipts from State Customers	157	—	—	9,211
Student Loan Disbursements Received from Lenders	344,188	—	—	—
Student Loan Disbursements Sent to Schools/Lenders	(342,851)	—	—	—
Payments to Suppliers/Claims/Grants	(26,853)	(143,805)	(10,569)	(113,741)
Disbursements for Loans Receivable	(559,835)	—	(61,272)	(25,165)
Payments on Loan Guarantees	(29,747)	—	—	—
Payments for Employee Services and Benefits	(3,725)	—	—	(22,584)
Payments to State Suppliers and Grants	(103)	—	(286)	(4,620)
Payments of Sales, School Lunch, and Premium Taxes	—	—	—	(29,390)
Net Cash Provided (Used) by Operating Activities	(151,756)	62,108	(32,430)	46,306
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Borrowings Under Interfund Loans	—	—	—	7,263
Repayments Under Interfund Loans	—	—	—	(6,428)
Receipts from Bonds, Notes, and Deposits	151,080	30	—	—
Payments of Bonds, Notes, Deposits, and Refunds	(3,710)	(5)	(1,060)	—
Interest Paid on Bonds, Notes, and Financing Costs	(34,561)	—	—	—
Federal Grants and Other Revenues	—	—	7,641	3,105
Restricted Sales Tax	—	—	14,349	525
Transfers In from Other Funds	—	—	1,582	35,343
Transfers Out to Other Funds	—	—	(2,950)	(40,874)
Net Cash Provided (Used) by Noncapital Financing Activities	112,809	25	19,562	(1,066)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Repayments Under Interfund Loans	—	—	—	—
Proceeds from Bond and Note Debt Issuance	—	—	—	7,343
Proceeds from Disposition of Capital Assets	—	—	—	—
Principal Paid on Debt and Contract Maturities	—	—	—	(6,234)
Acquisition and Construction of Capital Assets	(482)	—	—	(7,437)
Interest Paid on Bonds, Notes, and Capital Leases	(6)	—	—	(1,185)
Transfers In from Other Funds	—	—	—	1,593
Transfers Out to Other Funds	—	(2,160)	—	(1,972)
Net Cash Provided (Used) by Capital and Related Financing Activities	(488)	(2,160)	0	(7,892)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the Sale and Maturity of Investments	673,545	—	—	207
Receipts of Interest and Dividends from Investments	8,629	21,892	2,497	2,548
Payments to Purchase Investments	(621,245)	—	—	—
Net Cash Provided (Used) by Investing Activities	60,929	21,892	2,497	2,755
Net Cash Provided (Used) – All Activities	21,494	81,865	(10,371)	40,103
Cash and Cash Equivalents – Beginning	62,519	363,581	90,778	102,364
Cash and Cash Equivalents – Ending	$ 84,013	$ 445,446	$ 80,407	$ 142,467

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

Total	Governmental Activities – Internal Service Funds
$ 478,962	$ 45,054
420,215	2,478
46,041	—
9,368	142,346
344,188	—
(342,851)	—
(294,968)	(66,884)
(646,272)	—
(29,747)	—
(26,309)	(33,723)
(5,009)	(52,827)
(29,390)	—
(75,772)	36,444
7,263	—
(6,428)	—
151,110	535
(4,775)	(1,259)
(34,561)	(6)
10,746	—
14,874	—
36,925	—
(43,824)	(4,818)
131,330	(5,548)
0	(11,450)
7,343	953
0	4,244
(6,234)	(930)
(7,919)	(18,308)
(1,191)	(107)
1,593	658
(4,132)	—
(10,540)	(24,940)
673,752	—
35,566	1,510
(621,245)	—
88,073	1,510
133,091	7,466
619,242	57,350
$ 752,333	$ 64,816

Continues

Statement Of Cash Flows
Proprietary Funds

Continued

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

	Business-type Activities – Enterprise Funds			
	Student Assistance Programs	**Unemployment Compensation Fund**	**Water Loan Programs**	**Nonmajor Enterprise Funds**
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	$ 12,763	$ 80,818	$ 1,185	$ 48,926
Adjustments to Reconcile Operating Income (Loss)				
Depreciation Expense	434	—	—	2,110
Interest Expense for Noncapital and Capital Financing	32,872	—	—	—
Miscellaneous Gains, Losses, and Other Items	7,204	—	—	684
Net Changes in Assets and Liabilities:				
Accounts Receivable/Due From Other Funds	(10,003)	(18,680)	163	2,752
Notes/Accrued Interest Receivables	(201,420)	—	(33,369)	(3,884)
Inventories	—	—	—	(983)
Prepaid Items/Deferred Charges	(23)	—	—	19
Accrued Liabilities/Due to Other Funds	5,500	2,134	(409)	(3,276)
Unearned Revenue/Deposits	917	—	—	(42)
Policy Claims Liabilities	—	(2,164)	—	—
Net Cash Provided (Used) by Operating Activities	$ (151,756)	$ 62,108	$ (32,430)	$ 46,306
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Increase (Decrease) in Fair Value of Investments	$ —	$ —	$ 10	$ 8
Total Noncash Investing, Capital, and Financing Activities	$ 0	$ 0	$ 10	$ 8

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

Total	Governmental Activities – Internal Service Funds
$ 143,692	$ 6,230
2,544	20,216
32,872	—
7,888	—
(25,768)	1,415
(238,673)	2,478
(983)	(256)
(4)	(923)
3,949	1,971
875	1,063
(2,164)	4,250
$ (75,772)	$ 36,444
$ 18	$ 9
$ 18	$ 9

Statement Of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005 (Expressed in Thousands)

	Pension Trust Funds	Investment Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents	$ 1,046,515	$ 558	$ 37,468	$108,352
Receivables:				
Accounts	2,479	—	4,425	202
Contributions	26,710	—	—	—
Investments	380,158	—	—	—
Accrued Interest	—	28,139	—	—
Accrued Assessments	—	—	9,794	—
Due From Other Funds	—	—	1,015	256
Investments:				
Debt Securities	4,464,798	3,980,444	319,251	11,519
Equity Investments	11,200,639	—	879,605	2,039
Venture Capital	552,534	—	—	—
Real Estate	1,673,204	—	—	—
Mortgage Loans	6,659	—	—	—
Invested Securities Lending Collateral	2,369,152	—	—	—
Investment Contracts	50,233	—	—	—
Total Investments	20,317,219	3,980,444	1,198,856	13,558
Capital Assets:				
Land	1,779	—	260	—
Buildings and Improvements	11,050	—	4,501	—
Machinery and Equipment	3,326	—	534	—
Less Accumulated Depreciation	(12,082)	—	(1,260)	—
Total Capital Assets	4,073	0	4,035	0
Total Assets	21,777,154	4,009,141	1,255,593	$122,368
LIABILITIES				
Accounts Payable	729,797	—	3,277	$ —
Securities Lending Liability	2,369,152	—	—	—
Due To Other Funds	—	—	160	—
Due To Other Individuals or Groups	—	—	—	33,043
Due To Other Taxing Units	—	—	—	89,325
Unearned Revenue	—	—	334	—
Leave/Postemployment Benefits	5,285	—	—	—
Policy Claims Liabilities/Insurance Reserves	5,000	—	367,315	—
Mortgages Payable	480,000	—	—	—
Total Liabilities	3,589,234	0	371,086	$122,368
NET ASSETS				
Held in trust for:				
Pension Benefits	16,084,094	—	—	
Deferred Compensation	2,103,826	—	—	
Pool Participants	—	4,009,141	—	
Individuals, Organizations, and Other Governments	—	—	884,507	
Total Net Assets	$ 18,187,920	$ 4,009,141	$ 884,507	
Participant Account Balance Net Asset Valuation Factor		1.000154		

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

State of Utah

Statement Of Changes In Fiduciary Net Assets
Fiduciary Funds

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

	Pension Trust Funds	Investment Trust Fund	Private Purpose Trust Funds
ADDITIONS			
Contributions:			
Member	$ 223,064	$ —	$ 300,176
Employer	435,715	—	—
Court Fees and Fire Insurance Premiums	10,467	—	—
Total Contributions	669,246	0	300,176
Pool Participant Deposits	—	6,854,443	—
Investment Income:			
Net Increase (Decrease) in Fair Value of Investments	1,709,151	(2,092)	45,433
Interest, Dividends, and Other Investment Income	453,365	117,893	22,831
Less Investment Expenses	(43,424)	(101)	—
Net Investment Income	2,119,092	115,700	68,264
Transfers From Affiliated Systems	15,787	—	—
Other Additions:			
Escheats	—	—	20,193
Royalties and Rents	—	—	2,438
Fees, Assessments, and Revenues	—	—	79,382
Miscellaneous	—	—	4,066
Total Other	0	0	106,079
Total Additions	2,804,125	6,970,143	474,519
DEDUCTIONS			
Pension Benefits	578,711	—	—
Refunds/Plan Distributions	105,593	—	—
Earnings Distribution	—	118,854	—
Pool Participant Withdrawals	—	6,357,949	—
Transfers To Affiliated Systems	15,787	—	—
Trust Operating Expenses	—	—	26,614
Distributions and Benefit Payments	—	—	71,265
Administrative and General Expenses	14,840	—	10,425
Total Deductions	714,931	6,476,803	108,304
Change in Net Assets Held in Trust for:			
Pension Benefits	1,834,962	—	—
Deferred Compensation	254,232	—	—
Pool Participants	—	493,340	—
Individuals, Organizations, and Other Governments	—	—	366,215
Net Assets – Beginning	16,098,726	3,837,851	518,292
Adjustments to Beginning Net Assets	—	(322,050)	—
Net Assets – Beginning as Adjusted	16,098,726	3,515,801	518,292
Net Assets – Ending	$ 18,187,920	$ 4,009,141	$ 884,507

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

Combining Statement Of Net Assets
Component Units

June 30, 2005 (Expressed in Thousands)

	Utah Housing Corporation	Public Employees Health Program	University of Utah	Utah State University
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 478,046	$ 222	$ 491,679	$ 57,872
Investments	—	76,519	80,061	126,897
Receivables:				
Accounts, net	—	35,240	203,518	46,643
Notes/Loans/Mortgages/Pledges, net	13,727	—	7,419	14,256
Accrued Interest	4,927	1,182	1,508	—
Due From Primary Government	—	—	1,503	—
Prepaid Items	1,491	10,079	—	1,388
Inventories	—	—	27,591	3,227
Deferred Charges	—	—	8,902	—
Total Current Assets	498,191	123,242	822,181	250,283
Noncurrent Assets:				
Restricted Investments	92,553	—	297,167	52,547
Accounts Receivables, net	—	—	—	—
Investments	122,005	116,433	178,748	7,344
Notes/Loans/Mortgages/Pledges Receivables, net	858,361	—	57,628	7,077
Deferred Charges	9,557	—	16,199	—
Other Assets	5,395	—	—	—
Capital Assets (net of Accumulated Depreciation)	6,713	925	1,094,780	385,866
Total Noncurrent Assets	1,094,584	117,358	1,644,522	452,834
Total Assets	1,592,775	240,600	2,466,703	703,117
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	49,373	11,099	110,688	40,017
Securities Lending Liability	—	42,345	—	—
Deposits	—	—	77,390	276
Due To Primary Government	—	—	8,389	4,815
Unearned Revenue	—	7,997	23,816	22,606
Current Portion of Long-term Liabilities (Note 10)	120,887	62,696	22,899	9,453
Total Current Liabilities	170,260	124,137	243,182	77,167
Noncurrent Liabilities:				
Accrued Liabilities	626	—	—	—
Unearned Revenue	—	—	—	1,190
Deposits	—	—	11,345	—
Due To Primary Government	—	—	9,765	—
Long-term Liabilities (Note 10)	1,221,768	44,700	339,706	120,095
Total Noncurrent Liabilities	1,222,394	44,700	360,816	121,285
Total Liabilities	1,392,654	168,837	603,998	198,452
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	2,168	925	760,338	317,621
Restricted for:				
Nonexpendable:				
Higher Education	—	—	275,041	66,376
Expendable:				
Higher Education	—	—	338,865	76,418
Debt Service	167,813	—	—	—
Insurance Plans	—	70,838	—	—
Other	—	—	—	—
Unrestricted	30,140	—	488,461	44,250
Total Net Assets	$ 200,121	$ 71,763	$ 1,862,705	$ 504,665

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

Nonmajor Component Units	Total
$ 140,895	$ 1,168,714
29,563	313,040
24,081	309,482
5,409	40,811
597	8,214
—	1,503
4,644	17,602
9,440	40,258
346	9,248
214,975	1,908,872
104,448	546,715
892	892
67,070	491,600
40,886	963,952
—	25,756
7,202	12,597
801,477	2,289,761
1,021,975	4,331,273
1,236,950	6,240,145
24,216	235,393
—	42,345
1,156	78,822
1,878	15,082
16,167	70,586
22,925	238,860
66,342	681,088
—	626
—	1,190
798	12,143
1,332	11,097
105,924	1,832,193
108,054	1,857,249
174,396	2,538,337
701,239	1,782,291
72,337	413,754
142,264	557,547
—	167,813
—	70,838
41	41
146,673	709,524
$ 1,062,554	$ 3,701,808

State of Utah

Combining Statement Of Activities
Component Units

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

	Utah Housing Corporation	Public Employees Health Program	University of Utah	Utah State University
Expenses	$ 71,223	$ 483,552	$ 1,826,662	$ 416,469
Program Revenues:				
Charges for Services:				
Tuition and Fees	—	—	145,214	83,389
Scholarship Allowances	—	—	(13,025)	(22,411)
Sales, Services, and Other Revenues (net of University of Utah patient services allowance of $34,696)	78,121	479,887	1,213,568	49,685
Operating Grants and Contributions	—	5,578	375,554	166,244
Capital Grants and Contributions	—	—	33,444	5,022
Total Program Revenues	78,121	485,465	1,754,755	281,929
Net (Expenses) Revenues	6,898	1,913	(71,907)	(134,540)
General Revenues:				
State Appropriations	—	—	238,756	131,586
Unrestricted Investment Income	—	—	—	—
Permanent Endowments Contributions	—	—	11,390	1,122
Total General Revenues	0	0	250,146	132,708
Change in Net Assets	6,898	1,913	178,239	(1,832)
Net Assets – Beginning	193,223	69,850	1,684,466	504,334
Adjustment to Captial Assets Classification	—	—	—	2,163
Reclassify Entity as Component Unit	—	—	—	—
Net Assets – Beginning as Adjusted	193,223	69,850	1,684,466	506,497
Net Assets – Ending	$ 200,121	$ 71,763	$ 1,862,705	$ 504,665

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

Nonmajor Component Units	Total
$ 725,588	$ 3,523,494
225,413	454,016
(39,387)	(74,823)
103,682	1,924,943
145,880	693,256
53,218	91,684
488,806	3,089,076
(236,782)	(434,418)
306,223	676,565
1,061	1,061
4,874	17,386
312,158	695,012
75,376	260,594
975,765	3,427,638
—	2,163
11,413	11,413
987,178	3,441,214
$ 1,062,554	$ 3,701,808

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the State of Utah conform in all material respects with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

A. Reporting Entity

For financial reporting purposes, the State of Utah reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, boards, commissions, and authorities that are considered an integral part of the State's activities. The State's component units are legally separate organizations for which the State's elected officials are financially accountable.

The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and either: (***1***) the ability of the State to impose its will on that organization or; (***2***) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. Where the State does not appoint a voting majority of an organization's governing body, GASB standards require inclusion in the reporting entity if an organization is fiscally dependent on the State, its resources are held for the direct benefit of the State or can be accessed by the State, or the relationship is such that it would be misleading to exclude it.

Except where noted below, the State's component units issue their own separate audited financial statements as special-purpose governments engaged only in business-type activities. These financial statements can be obtained from their respective administrative offices or from the Utah State Auditor's Office, PO Box 142310, Salt Lake City, UT 84114.

Entities such as the local school districts and local authorities of various kinds that may only partially meet the criteria for inclusion in this report have not been included. (The State's support of the public education system is reported in the Uniform School Fund, a special revenue fund.)

Blended Component Units

Blended component units provide services entirely or almost entirely to the primary government. GASB standards require this type of component unit to be reported as part of the primary government and blended into the appropriate funds.

Utah State Building Ownership Authority (blended with the primary government's debt service and capital projects funds) — The Authority was created by the Legislature as a body politic and corporate for the purpose of financing, owning, leasing and operating facilities to meet the needs of state government. It is comprised of three members: the Governor or designee, the State Treasurer and the Chair of the State Building Board. Separate financial statements are not required or issued for the Authority.

Discrete Component Units

Discretely presented component units are reported in a separate column and/or rows in each of the government-wide statements to emphasize that they are legally separate from the State. The Governor appoints at least a majority of the governing board members of each of the State's component units, subject in most cases to approval by the Senate. The Utah Housing Corporation is included in the reporting entity because of its ability to issue moral obligation debt of the State and low-income housing tax credits. The other component units are included in the reporting entity because under the criteria established by GASB, the State has the ability to impose its will on these organizations. The colleges and universities, the Public Employees Health Program, Comprehensive Health Insurance Pool and the Schools for the Deaf and Blind are included as component units due to the level of oversight provided by the State. The Governor-appointed board members of the remaining component units can be replaced at will.

The State's major discrete component units are:

Utah Housing Corporation — The Corporation issues bonds to provide capital for housing and home mortgages, especially for low and moderate-income families. Operations are financed from bond proceeds and from mortgage and investment interest and fees.

Public Employees Health Program — This Program provides employee medical and other insurance services predominantly for agencies of the State. It also provides claims processing and insurance services for local governments and other public entities within Utah. The Program is administered by the Utah State Retirement Board.

University of Utah and Utah State University — These universities are funded primarily through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services. The operations of the University of Utah also include its hospital and clinics.

The State's nonmajor discrete component units are:

Comprehensive Health Insurance Pool — The Pool is a nonprofit quasi-governmental entity established within the State Insurance Department. It provides access to health insurance coverage for residents of the State who are considered uninsurable.

Utah Schools for the Deaf and the Blind — These Schools provide practical education to individuals with hearing and/or vision impairments. In prior years, these Schools were reported as governmental activities within the primary government. However, the Schools were reevaluated and are now more appropriately reported as a discrete component unit. Separate audited financial statements are not required or issued for it.

Heber Valley Historic Railroad Authority — The Authority is an independent state agency that maintains and operates a scenic and historic railroad in and around the Heber Valley. The Authority has a separate compilation report, but separate audited financial statements are not required or issued for it.

Utah State Fair Corporation — This is a nonprofit public corporation that operates the State Fair Park and conducts the Utah State Fair and other various expositions and entertainment events. It receives state appropriations for operations and working capital.

Colleges and Universities — Weber State University, Southern Utah University, Salt Lake Community College, Utah Valley State College, Dixie State College of Utah, College of Eastern Utah, Snow College, and the Utah College of Applied Technology. Separate audited financial statements are not required or issued for the Utah College of Applied Technology; however, its significant branch campuses each issue separate audit financial statements.

Fiduciary Component Units

Utah Retirement Systems (pension trust funds) — Utah Retirement Systems administers pension funds for various public employee retirement systems and plans of the State and its political subdivisions. Utah Retirement Systems is an independent state agency subject to legislative and executive department budgetary examination and comment. The Utah State Retirement Board, a seven-member board is established by statute to administer the systems and plans, and to serve as investment trustees of the funds. Six members are appointed by the Governor with the advice and consent of the Senate, while the State Treasurer serves as the seventh member. Because of the State's trustee responsibilities for these systems and plans, GAAP requires them to be reported as pension trust funds of the primary government rather than discrete component units. In accordance with GAAP, fiduciary funds and component units that are fiduciary in nature are excluded from the government-wide financial statements.

Related Organization (Excluded from Financial Statements)

Workers' Compensation Fund — This fund is a nonprofit quasi-public corporation created by the Legislature for a public purpose that provides workers' compensation insurance to private and public employers. The Governor appoints six of the Fund's seven board of directors, but the State's financial accountability for the Fund does not extend beyond making the appointments.

B. **Government-wide and Fund Financial Statements**

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all nonfiduciary activities of the primary government and its component units. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The State does not allocate general government (indirect) expenses to other functions. Program revenues include: (***1***) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (***2***) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. For governmental and proprietary funds financial statements, the emphasis is on major individual governmental and enterprise funds, with each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a separate column on the proprietary funds financial statements.

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Nonexchange transactions, in which the State receives value without directly giving equal value in exchange, include taxes, grants, and donations. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers taxes and other revenues to be available if the revenues are collected within 45 days after yearend. An exception to this policy is federal grant revenues, which generally are considered to be available if collection is expected within 12 months after yearend.

Expenditures are generally recorded when the related liability is incurred, as under the accrual basis of accounting. However, expenditures for principal and interest on long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments of interest to be made early in the following year. Also, expenditures and related liabilities for compensated absences, postemployment benefits, and claims and judgments are recorded only to the extent they have matured (come due for payment).

Major Governmental Funds — The State reports the following major governmental funds:

- **General Fund**. This fund is the principal operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- **Uniform School Fund**. This special revenue fund accounts primarily for revenues and expenditures that support public elementary and secondary schools in the State.

- **Transportation Fund**. This special revenue fund accounts for revenues and expenditures associated with highway construction and maintenance.

- **Centennial Highway Fund**. This special revenue fund was created by the Legislature to account for specific highway projects.

- **Trust Lands Fund**. This is a permanent fund that accounts for land grants and the sale of such lands received from the federal *Enabling Act*. The principal in the fund is perpetual, with the earnings used primarily to support public education.

Nonmajor Governmental Funds — The State's nonmajor governmental funds include other special revenue funds, capital projects funds, and debt service funds. The nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specific purposes. Examples include tobacco settlement monies, environmental activities, crime victim reparations and rural development programs. The capital projects funds account for the resources used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds. The debt service funds account for resources used for the payment of interest and principal on general long-term debt obligations.

Proprietary Fund Financial Statements

The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above. Proprietary funds include both enterprise and internal service fund types. Enterprise funds report the activities for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided primarily to other agencies or funds of the State, rather than to the general public.

Reporting for business-type activities and enterprise funds follow all GASB pronouncements, and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as subsidies and investment earnings, are reported as nonoperating.

Major Enterprise Funds — The State reports the following major enterprise funds in its proprietary fund statements:

- **Student Assistance Programs**. These programs make loans to, and purchase loans of, qualified students attending eligible higher education institutions. The programs also guarantee the repayment of student loans made by participating lenders to eligible students.

- **Unemployment Compensation Fund**. This fund pays claims for unemployment to eligible recipients.

- **Water Loan Programs**. This fund provides loans to local governments, water districts, and other entities for the purpose of upgrading water storage facilities and other related structures.

Nonmajor Enterprise Funds — The State's nonmajor enterprise funds include loan programs for communities, low-income housing, agricultural and other purposes; Alcoholic Beverage Control (state liquor stores); Utah Correctional Industries; State Trust Lands Administration; and the Utah Dairy Commission.

Internal Service Funds — The State also reports the internal service fund type in the proprietary funds statements. The activities accounted for in internal service funds include information technology, fleet operations, risk management, copy and mail services, debt collection, and property management. In the government-wide financial statements, internal service funds are included with governmental activities.

Fiduciary Fund Financial Statements

The fiduciary funds account for assets held by the State in a trustee capacity or as an agent for other individuals or organizations. The fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following fiduciary fund types are reported:

Pension Trust Funds — These funds account for the transactions, assets, liabilities, and fund equity of the retirement systems and plans administered by Utah Retirement Systems.

Investment Trust Fund — This fund is used to account for the investments related to external participants in the Utah State Public Treasurer's Investment Fund.

Private Purpose Trust Funds — These funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments. Examples include the Utah Navajo Nation Trust, Unclaimed Property Trust, Employers' Reinsurance Trust, Petroleum Storage Tank Trust, and the Utah Education Savings Plan Trust.

Agency Funds — These funds account for assets held by the State as an agent for other governmental units, other organizations, or individuals. These funds include fines, forfeitures, tax collections, and withholding taxes for employees.

Component Unit Financial Statements

The combining component unit financial statements are presented in order to provide information on each of the major component units included in the component unit's column of the government-wide statements. The component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The information is presented in order to be consistent with the government-wide statements, and is less detailed than the presentation in each component unit's separately issued financial statements. The component units follow all GASB pronouncements, and all FASB pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. In addition, as allowed by GASB standards, the Public Employees Health Program has elected to apply all applicable FASB pronouncements issued after November 30, 1989, that do not conflict with GASB standards.

D. **Fiscal Year Ends**

All funds and discretely presented component units are reported using fiscal years which end on June 30, except the pension trust funds (fiduciary funds) and the Utah Dairy Commission (a nonmajor enterprise fund), which have fiscal years ending December 31.

E. **Assets, Liabilities, and Net Assets/Fund Balances**

Cash and Cash Equivalents and Investments

Cash equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date. The Student Assistance Programs (enterprise fund) use a trustee for their long-term investing needs, and they consider any cash and cash equivalents held by their trustee as investments.

All cash deposited with the State Treasurer by state entities is maintained by the Treasurer in various pooled investment funds. The State Treasurer invests the deposited cash, including the cash float, in short-term securities and other investments. All interest revenue is allocated to the General Fund unless state law or trust agreements require allocations of interest to other funds. Funds authorized to receive interest earnings are segregated into separate investment pools, and interest is allocated based on cash balances in the pool.

Investments (including cash equivalents) are under the control of the State Treasurer or other administrative bodies as determined by law. In certain instances, investments may be restricted by law or other legal instruments. Investments are presented at fair value. The fair value of investments is based on published prices and quotations from major investment brokers at current exchange rates, as available. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments. Investments held as security deposits which are not held for investment purposes are carried at cost. The Utah Retirement Systems (pension trust funds) mortgages are valued on an amortized cost basis which approximates fair value, and the fair value of real estate investments has been estimated based on independent appraisals.

The State's Unemployment Compensation Fund (enterprise fund) monies are required by the Social Security Act to be invested in the U.S. Department of Treasury, Bureau of Public Debt Unemployment Trust Fund (BPDUTF), which is not registered with the SEC. The fair value of the position in the BPDUTF is the same as the value of the BPDUTF shares.

Utah Retirement Systems (pension trust funds) held four types of derivative financial instruments at yearend: futures, currency forwards, options, and swaps. Futures contracts are traded on organized exchanges to minimize credit risk. Currency forwards are entered into in order to hedge the exposure to changes in foreign currency exchange rates on foreign currency dominated portfolio holdings. Utah Housing Corporation (major component unit) enters into various rate swap contracts in order to increase funding capabilities. The Corporation sells variable rate bonds and minimizes the inherent risk with the use of floating-to-fixed interest rate swap contracts. See Note 3 for additional information about derivatives.

Receivables

Accounts receivables in the governmental and business-type activities consist mainly of amounts due from the Federal Government, customers, and others. Receivables from the Federal Government are reasonably assured; accordingly, no allowance for uncollectible accounts has been established.

Notes/mortgages receivable for governmental and business-type activities are primarily long-term loans for local governments and agricultural development, home mortgages, and individual student loans. The interest rates on the loans vary but are generally lower than market rates and, in some cases, are non-interest bearing. Student loans in the Student Assistance Programs (business-type activities) are fixed and variable rate federally insured loans. Student loans are insured at 95 to 100 percent of their principal balance depending on the date disbursed.

Accrued taxes include receivables for taxpayer-assessed taxes where the underlying exchange has occurred in the period ending June 30 or prior, net of applicable estimated refunds and allowances.

Note 5 provides a disaggregation of governmental and business-type receivables, including a breakout of current/noncurrent balances and established allowances.

Inventories and Prepaid Items

Proprietary funds and component units inventories are valued at the lower of cost or market. Cost evaluation methods include first-in-first-out (FIFO), last-in-first-out (LIFO), average cost, weighted average, weighted moving average, and retail inventory method.

Governmental fund inventories are recorded as expenditures when purchased except for Transportation Fund inventories that are recorded as expenditures when consumed. Transportation Fund inventories are valued using a weighted average cost.

Prepaid items related to governmental funds are immaterial and recorded as expenditures in the governmental funds financial statements when paid.

Prepaid items for the Student Assistance Programs (enterprise fund) are primarily guarantor insurance premiums charged at the time loan proceeds are disbursed and are amortized over the estimated lives of the loans using a method which approximates the interest method of amortization.

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads, bridges, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns, or in the component units column on the government-wide Statement of Net Assets. Capital assets of proprietary funds and fiduciary funds are also recorded in their respective fund statements. Capital assets, with the exception of infrastructure, are defined by the State as assets, which cost $5 thousand or more when acquired and have an estimated useful life greater than one year. Infrastructure assets are capitalized if the cost is over $1 million. Purchased or constructed capital assets are recorded at cost or at estimated historical cost where historical cost is not available. Donated fixed assets are valued at their estimated fair value at the date of donation.

Capital assets purchased by governmental funds are recorded as expenditures in the governmental fund financial statements. Interest expense for capital asset construction related to governmental activities is not capitalized. Interest expense incurred during construction of capital facilities related to business-type activities and component units is immaterial and is not capitalized in all cases.

Buildings, equipment, and other depreciable assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Years
Equipment	3–15
Aircraft and Heavy Equipment	5–30
Buildings and Improvements	30–40
Land Improvements	5–20
Infrastructure	15–80

As provided by GASB standards, the State has elected to use the "modified approach" to account for infrastructure assets (roads and bridges) maintained by the State's Department of Transportation. Under this approach, depreciation expense is not recorded and only improvements that expand the capacity or efficiency of an infrastructure asset are capitalized. Using this approach requires the State to: (***1***) maintain an inventory of the assets and perform periodic condition assessments; (***2***) estimate each year the annual amount to maintain and preserve the assets at the condition level set by the State; and (***3***) document that the assets are being preserved approximately at or above the condition level set by the State.

Most works of art and historical treasures are not capitalized or depreciated. These assets are held for public exhibition, education, or research rather than financial gain. These assets are also protected, unencumbered, and preserved and subject to policies requiring the proceeds from sales of collection items to be used to acquire other collection items. The State's assets of this nature include the State Fine Art Collection, photographs, prints, paintings, historical documents and artifacts, monuments, statues, and paleontological and archaeological collections.

Accrued Liabilities

Accrued liabilities include the liability for employee payrolls and liabilities accruing over time where demand for payment is due shortly after fiscal yearend. See Note 6 for additional information about accrued liabilities.

Deferred Revenue — Unearned and Unavailable

In the government-wide statements, proprietary fund statements, and fiduciary fund statements, unearned revenue is recorded when cash or other assets are received prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable. Deferred revenues for the Student Assistance Programs (enterprise fund) are primarily guarantee fees that are recognized as income over a period of ten years using the sum-of-the-years-digits method.

Policy Claims Liabilities

Policy claims liabilities are for insurance claims incurred prior to the reporting date and are based on actuarial estimates. Policy claims liabilities for Unemployment Insurance are for claims filed as of the reporting date. A substantial portion of policy claims liabilities is long-term in nature. Therefore, claims liabilities are reported as long-term liabilities on the Statement of Net Assets.

Long-term Debt

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, deferred amount on refunding, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method or straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges (assets).

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The *Tax Reform Act of 1986* requires governmental entities issuing tax-exempt bonds to refund to the U.S. Treasury interest earnings on bond proceeds in excess of the yield on those bonds. Governmental entities must comply with arbitrage rebate requirements in order for their bonds to maintain tax-exempt status. Entities are required to remit arbitrage rebate payments for non-purpose interest to the federal government at least once every five years over the life of the bonds. Federal regulations also require the Student Assistance Programs to keep the yield on student loans within a designated percentage of the interest cost of the related tax-exempt borrowing. One method of reducing this yield is to make yield reduction payments to the United States Treasury. Estimated yield reduction payments may be made by the end of the tenth year and every fifth year thereafter during the life of the bonds. Some State of Utah bonds may be exempt from the rebate requirements if they meet certain statutory exceptions per the regulations.

Arbitrage liability is treated as an expense in the government-wide Statement of Net Assets and the proprietary fund financial statements when the liability is recognized. Arbitrage liability is recorded as an expenditure in the governmental funds financial statements when the liability is due. At June 30, 2005, the total estimated arbitrage rebate liability in the Student Assistance Programs (enterprise fund) was $66.411 million, of which $63.790 million represents yield reduction payments and $2.621 million represents the estimated liability for non-purpose interest. Other arbitrage liabilities are immaterial.

Compensated Absences and Leave/Postemployment Benefits

Employees' vacation leave is accrued at a rate of four hours every two weeks for the first five years of employment, and grows to a rate of seven hours every two weeks after 20 years of employment. There is no requirement to use vacation leave, but a maximum of 40 days may be carried forward at the beginning of each calendar year. Unused vacation leave is paid to employees upon termination. Employees who have a sick leave balance in excess of 144 hours at the beginning of a calendar year are eligible to "convert" up to 40 hours of sick leave if less than that amount is used during the year. Converted sick is paid to employees upon termination. The total liability of the governmental activities for compensated absences is recorded in the government-wide Statement of Net Assets as part of long-term liabilities. However, in accordance with GAAP, the liability is not recorded in the governmental funds financial statements. See Note 10 for additional information about the liability.

Employees earn sick leave at a rate of four hours for each two-week period, with no limit to the amount that can be accumulated. The State does not reimburse employees for unused sick leave upon termination unless employees are eligible for retirement or the sick leave is "converted". Sick leave is expended when used. At retirement, for participating agencies, the State will pay an employee up to 25 percent of the employee's accumulated sick leave and will pay for premiums to maintain health and life insurance coverage for up to five years or until the employee turns age 65, whichever comes first. The employee may use any remaining sick leave balances to acquire health insurance to age 65, and since fiscal year 1999, health insurance for the employee's spouse until they reach age 65, and Medicare supplement insurance after age 65 for both the employee and their spouse. See Note 17 for additional information about postemployment benefits.

The State maintains compensated absences and postemployment benefit pools within the General Fund, Uniform School Fund, and Transportation Fund. The ongoing payments from the pools are provided by charges to agency budgets as benefits are earned. Vacation leave taken as time off is paid from current budgets when used. Payment of leave balances at termination and payment of postemployment benefits are made from the compensated absences and postemployment benefit pools. Proprietary funds and private purpose trust funds of the primary government also participate in the pools and have no liability for leave or postemployment benefits once their contributions to the pools have been made.

Compensatory time for overtime worked may be earned up to a maximum of 80 hours. Any overtime exceeding 80 hours is paid when earned. In accordance with GAAP, compensatory time is expended when the leave is taken in governmental funds, but is expensed when earned for budgetary purposes.

Vacation earnings, sick leave earnings, and postemployment benefits policies vary slightly among component units and from the primary government's policies. Vacation leave is expended when earned and sick leave is expended when used.

Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide, proprietary fund, and fiduciary funds financial statements, and "Fund Balance" on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as reserved, designated, or unreserved. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

F. **Revenues and Expenditures/Expenses**

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's general policy to use restricted resources first. However, the State has some programs that are funded by appropriations from both unrestricted resources and resources required by law to be deposited in a specific subfund for a specific purpose (which may include restricted resources). In those instances, it is the State's policy to expend those resources proportionally based on the amounts appropriated from each source.

Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when entitlement occurs. All federal reimbursement-type grants are recorded as revenues when the related allowable expenditures are incurred and all applicable eligibility requirements are met.

Federal grants include nonmonetary transactions for food and vaccine commodities. Commodities revenue and expenditures are valued at their federally reported value. Commodity inventories at yearend are immaterial. For the fiscal year ended June 30, 2005, the State reported revenue and expenditures of $8.855 million for commodities in the General Fund, and $12.103 million for commodities in the Uniform School Fund (special revenue fund).

Investment Income

Investment income includes interest, dividends and other earnings, and the change in fair value of investments. Negative investment income is reported where the decrease in the fair value of investments due to market conditions exceeded the other components of investment income.

In accordance with state law, interest and dividend income from investments in the Trust Lands permanent fund and the Tobacco Endowment Fund (nonmajor governmental fund) is assigned to and reported directly in the Uniform School Fund and the General Fund, respectively. One half of the applicable income reported in the General Fund is then transferred back into the Tobacco Endowment Fund to increase the principal in the fund as required by state law.

Retirement and Employee Benefit Costs

Most state employees participate in a pension system and/or plan administered by Utah Retirement Systems. Contributions collected for the pension systems and plans and the retirement benefits paid are both accounted for in the Pension Trust Funds. All costs for pension, health, and federal social security contributions are reported as expenditures in the appropriate function in governmental fund types or as expenses in applicable proprietary fund types. Pension and other benefit costs are recognized in the fiscal year in which the underlying payroll cost is incurred.

G. Interfund Transactions

Government-wide Financial Statements

Interfund Activity — In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. Operating transfers between governmental and business-type activities are reported at the net amount.

Interfund Balances — Interfund receivables and payables have been eliminated from the government-wide Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Governmental Fund Financial Statements

Interfund Activity — Interfund transactions for goods sold or services rendered for a price approximating their external exchange value, and employee benefit contributions are accounted for as revenues and expenditures/expenses in the funds involved.

Transfers are used to report flows of cash (or other assets) between funds without equivalent flows of assets in return or a requirement for repayment. The State's transfers are based on legislative appropriations or other legal authority. Transfers are presented in Note 13.

NOTE 2. BEGINNING NET ASSET ADJUSTMENTS AND OTHER CHANGES

Capital asset related adjustments to beginning net assets of governmental activities reported on the Statement of Net Assets resulted in a net increase of $2.724 million. The recorded net amount of buildings increased $12.715 million due to a change in interpretation of federal regulations for Utah National Guard buildings and assets discovered by a federal audit at the Department of Natural Resources. In addition, $9.991 million in capital assets were reclassified from governmental activities to a component unit (see subsequent paragraph). Had these changes been made in the prior year, the effect on governmental activities on the prior year Statements of Activities would have been an increase of $24 thousand in expenses and $2.748 million in beginning net assets. The effects of these adjustments on beginning amounts reported for each component of capital assets is described in Note 8.

As discussed in Note 1.A, the Schools for the Deaf and the Blind were reevaluated and are now reported as a discrete component unit. In prior years, these Schools were reported as governmental activities within the primary government (Uniform School Fund, a major special revenue fund with donations reported in a miscellaneous special revenue fund within Nonmajor Governmental Funds). As a result of this change, a reclassification of $11.413 million was made to reduce beginning net assets of the governmental activities and increase beginning net assets of components units. This reclassification in beginning net assets includes $9.991 million in capital assets as noted in the above paragraph. Amounts included in the governmental activities on the prior year Statement of Net Assets and Statement of Activities included the following: $13.119 million total assets; $1.706 million total liabilities; $22.963 million revenues, of which $18.107 million were state appropriations; and $23.159 million total expenses.

A reevaluation of the recognition criteria used to report federal receivables resulted in a net decrease of $98.949 million to beginning net assets of governmental activities reported on the Statement of Net Assets. Had this change been made in the prior year, the effect on governmental activities on the prior year Statement of Activities would have been a decrease of $9.506 million in revenue and $89.443 million in beginning net assets.

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* establishes standards for the measurement, recognition and display of postemployment healthcare and similar benefits (OPEB). Because retroactive application of the measurement requirements of this Statement is not required, the OPEB liability at the beginning of the transition year will be zero. In preparation of implementing this Statement for the fiscal year beginning July 1, 2006 (the transition year), the postemployment liability previously included in the governmental activities of the primary government was eliminated. This change resulted in a net increase of $240.538 million on the Statement of Net Assets. Had this change been made in the prior year, the effect on governmental activities on the Statement of Activities would have been a decrease of $24.096 million in expenses and an increase of $216.442 million in beginning net assets. See Note 17 for more information on postemployment benefits.

A reevaluation of the recognition criteria used to report the State's liability for cleanup costs with the U.S. Environmental Protection Agency resulted in a decrease of $8 million to beginning net assets of governmental activities reported on the Statement of Net Assets.

The Student Loan Purchase Program, reported as a business-type activity within the primary government (Student Assistance Programs, major enterprise fund), implemented a retroactive change in the method of amortizing deferred guarantor insurance premiums. This change in amortization, from straight line to an accelerated method, increased beginning net assets by $2.479 million. Had this change been made in the prior year, the effect on business-type activities reported on the Statement of Activities would have been a decrease of $333 thousand in expenses and a $2.146 million increase in beginning net assets.

An adjustment was made to decrease the beginning net assets of the Investment Trust Fund reported on the Statement of Fiduciary Net Assets by $322.050 million. In the prior year, certain deposits by third party trustees on behalf of the State and its component units were treated as deposits of external participants and reported in the Investment Trust Fund. Under generally accepted accounting principles, those deposits should have been treated as deposits of internal participants and excluded from the presentation. See Note 4 for additional information about the Investment Trust Fund.

An adjustment was made to increase beginning net assets of Utah State University (major component unit) by $2.163 million for capital assets that were inadvertently deleted in prior years.

GASB Statement 46, *Net Assets Restricted by Enabling Legislation Disclosures—an amendment of GASB Statement No. 34* was early implemented for the fiscal year ended June 30, 2005. As a result, a disclosure related to restricted net assets was added. Implementing this Statement did not result in any other reporting changes. The change is reflected in Note 11.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits and investments for the primary government and its discrete component units are governed by the Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) and rules of the State of Utah Money Management Council. However, the Act also permits certain funds that have a long-term perspective to make investments of a long-term nature, such as equities and bond mutual funds. In the primary government these are the Tobacco Endowment (special revenue fund), Trust Lands (permanent fund), Employers' Reinsurance Trust (private purpose trust), and Utah Educational Savings Plan Trust (private purpose trust). In the component units it is the college and university funds from gifts, federal or private grants, and the corpus of funds functioning as endowments. Exempt from the Act in the primary government is the Utah Retirement Systems (pension trust funds). The discrete component units exempt from the Act are Utah Housing Corporation and Public Employees Health Program.

A. PRIMARY GOVERNMENT

Custodial Credit Risk—Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. The Money Management Act requires deposits be in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the primary government at June 30, 2005, were $245.519 million. Of these, $242.855 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments 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.

The Act authorizes investments in both negotiable and nonnegotiable deposits of qualified depositories and permitted depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing Association (Sallie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; and shares or certificates in a money market mutual fund as defined in the Act.

The Act permits investing according to the rules of the Money Management Council for certain funds with a long-term perspective and funds acquired by gift, private grant, and the corpus of funds functioning as endowments. The Council's Rule 2 allows the State to invest these funds in any of the above investments or in any of the following, subject to satisfying certain criteria: professionally managed pooled or commingled investment funds, or mutual funds which satisfy certain criteria; common stock, convertible preferred stock or convertible bonds; corporate bonds or debentures; and alternative investments as defined in the rule.

The primary government's investments at June 30, 2005, are presented below. All investments, except those of the Utah Retirement Systems (pension trust funds), are presented by investment type and debt securities are presented by maturity. The Utah Retirement Systems are presented consistent with their separately issued financial statements by investment type.

Primary Government Investments
(except Pension Trust Funds)
(Expressed in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1–5	6–10	More Than 10
Debt Securities					
U.S. Treasuries	$ 4,707	$ 57	$ 4,650	$ —	$ —
U.S. Agencies	2,360,343	2,341,573	16,095	—	2,675
Corporate Debt	3,915,973	3,915,668	305	—	—
Negotiable Certificates of Deposit	302,632	302,632	—	—	—
Money Market Mutual Fund	193,578	193,578	—	—	—
Commercial Paper	131,365	131,365	—	—	—
Bond Mutual Fund *	380,930	—	—	380,930	—
Repurchase Agreements	27,735	27,735	—	—	—
	7,317,263	$ 6,912,608	$ 21,050	$ 380,930	$ 2,675
Other Investments					
Equity Securities	7,318				
Equity Mutual Funds Securities:					
Domestic	1,074,533				
International	146,423				
U.S. Unemployment Trust Pool	443,224				
Real Estate Held for Investment Purposes	1,103				
Real Estate Joint Ventures	257				
Component Units Investment in Primary Government's Investment Pool	(727,302)				
Total	$ 8,262,819				

***** At June 30, 2005, the bond mutual fund had an average effective maturity of 6.8 years.

The majority of the primary government's corporate debt securities are variable-rate securities, which adjust periodically to the prevailing market interest rates. Because these securities frequently reprice, interest rate risk is substantially reduced at each periodic reset date. In the table above, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

U.S. agency debt securities of $2.1 billion owned by the primary government reset periodically and have a maximum maturity out to four years. The securities "step up" to higher interest rates at levels determined at the time of purchase. These securities are callable at par and on a quarterly basis may be called or stepped up; if held to maturity they will mature at par. In the current rising interest rate environment, some of these adjustable rate securities have not kept pace with the increase in rates as reflected in their fair market values. In the table above, U.S. agency securities are presented according to the length of time until the next reset date rather than the stated maturity.

In addition, significant funds with a long-term investment perspective have the following mix of investments (percentages are of the fund's total investments). Utah Educational Savings Plan Trust (private purpose trust) – $810.284 million, 79.6 percent, in domestic equity mutual fund securities; $156.217 million, 15.3 percent, in bond mutual fund; $52.007 million, 5.1 percent, in international equity mutual fund securities. Trust Lands (permanent fund) – $250.449 million, 44.3 percent, in domestic equity mutual fund securities; $220.329 million, 39.0 percent, in bond mutual fund; and $94.416 million, 16.7 percent, in international equity mutual fund securities.

Pension Trust Funds Investments
At December 31, 2004
(Expressed in Thousands)

Investment Type	**Fair Value**
Debt Securities – Domestic	$ 2,597,950
Debt Securities – International	525,742
Equity Securities – Domestic	6,099,679
Equity Securities – International	3,362,805
Short-term Securities Pools	1,054,509
Mortgage Loans:	
Collateralized Loans	23
Real Estate Notes	6,635
Real Estate	453,046
Real Estate Joint Ventures	1,220,159
Alternative Investments (Venture Capital)	552,533
Guaranteed Investment Contracts	50,233
Equity Securities – Domestic (Pooled)	308,597
Mutual Fund – International	187,831
Mutual Fund – Balanced	273,184
Investments Held by Broker-dealers	
Under Securities Lending Program:	
U.S. Government and Agency Securities	915,722
Corporate Debt Securities – Domestic	70,500
Debt Securities – International	354,886
Equity Securities – Domestic	956,474
Equity Securities – International	12,070
Total Investments	19,002,578
Securities Lending Collateral Pool	2,369,152
Total Pension Trust Funds	$ 21,371,730

Interest Rate Risk—Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The primary government's policy for managing interest rate risk is to comply with the State's Money Management Act. Section 51–7–11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270–365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years. Funds that follow Rule 2 of the Money Management Council may not allow the dollar-weighted average maturity of fixed-income securities to exceed ten years.

The Utah Retirement Systems (URS) manage their exposure to fair value loss arising from increasing interest rates by complying with the following policy:

- For domestic debt securities managers, an individual debt securities investment manager's portfolio shall have an effective duration between 75 and 125 percent of the effective duration of the appropriate index.
- The international debt securities investment managers shall maintain an effective duration of their portfolio between 50 and 150 percent of the appropriate index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

The URS compares an investment's effective duration against the Lehman Brothers Aggregate Index for domestic debt securities and the Lehman Brothers Global Aggregate Index for international debt securities. The index range at December 31, 2004, was 3.26 – 5.43 for domestic debt securities and 2.53 – 7.59 for international debt securities. At December 31, 2004, no individual debt security investment manager's portfolio was outside of the policy guidelines. At December 31, 2004, the following tables show the investments by investment type, amount and the effective weighted duration rate.

Pension Trust Funds
Debt Securities Investments, Domestic
(Expressed in Thousands)

Investment	Fair Value	Effective Weighted Duration
Asset backed securities	$ 139,996	1.43
Commercial mortgage backed securities	81,393	3.54
Corporate bonds	539,756	4.51
Corporate convertible bonds	2,174	0.15
Fixed income options, Futures, and swaps	402,088	5.63
Fixed income derivatives offsets	(403,142)	NA
Government agencies	85,249	3.04
Government bonds	737,099	6.30
Government mortgage backed securities	1,005,695	3.27
Index linked government bonds	142,595	8.19
Municipal/provincial bonds	2,856	8.92
Non-government backed C.M.O.'s	134,976	3.03
Other fixed income	2,999	NA
Pooled debt securities	710,436	NA
Total debt securities investments, domestic	$ 3,584,170	4.66

Pension Trust Funds
Debt Securities Investments, International
(Expressed in Thousands)

Investment	Fair Value	Effective Weighted Duration
Asset backed securities	$ 11,572	3.86
Commercial mortgage backed securities	10,061	3.49
Corporate bonds	342,467	5.01
Government agencies	19,802	4.31
Government bonds	424,765	5.50
Government mortgage backed securities	40,556	3.25
Index linked government bonds	1,625	0.00
Municipal/provincial bonds	6,412	6.46
Non-government backed C.M.O.'s	23,368	10.52
Total debt securities investments, international	$ 880,628	5.35

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The primary government, with the exception of the Utah Retirement Systems (URS), follows the Money Management Act as previously discussed as its policy for reducing exposure to investment credit risk.

The primary government's rated debt investments as of June 30, 2005, with the exception of URS, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Primary Government Rated Debt Investments
(except Pension Trust Funds)
(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings AAA	AA	A	BBB	BB
U.S. Agencies	$ 2,360,343	$ 2,188,005	$ —	$ 170,665	$ —	$ —
Corporate Debt	$ 3,915,973	$ 211,623	$ 709,649	$ 2,685,486	$ 271,282	$ 37,933
Negotiable Certificates of Deposit	$ 302,632	$ —	$ —	$ 272,735	$ 29,897	$ —
Money Market Mutual Fund	$ 193,578	$ —	$ —	$ —	$ —	$ —
Commercial Paper	$ 131,365	$ —	$ —	$ —	$ —	$ —
Bond Mutual Fund	$ 380,930	$ —	$ —	$ —	$ —	$ —
Repurchase Agreements – Underlying: U.S. Agencies	$ 17,715	$ 17,715	$ —	$ —	$ —	$ —

Continues Below

Debt Investments	Quality Ratings A1 *	Unrated
U.S. Agencies	$ —	$ 1,673
Corporate Debt	$ —	$ —
Negotiable Certificates of Deposit	$ —	$ —
Money Market Mutual Fund	$ —	$ 193,578
Commercial Paper	$ 131,365	$ —
Bond Mutual Fund	$ —	$ 380,930
Repurchase Agreements – Underlying: U.S. Agencies	$ —	$ —

* A1 is Commercial Paper rating

The Utah Retirement Systems (URS) expects its domestic debt securities investment managers to maintain diversified portfolios by sector using the following guidelines:

- U.S. government and agency securities — no restriction.
- Total portfolio quality shall maintain a minimum overall rating of "A" (S&P) or equivalent rating.
- Securities with a quality rating of BBB- and below are considered below investment grade. No more than 5 percent of an investment manager's assets at market with a single issuer of 1 percent of the total portfolio can be below investment grade.
- Upon approval, a domestic debt securities investment manager may invest up to 10 percent of the portfolio in non-U.S. dollar denominated bonds.

Upon approval, the international debt securities investment managers may hold up to 25 percent of the market value of their portfolios in securities rated below investment grade (S&P index BBB- or Moody's index Baa3). The remaining assets shall have on average an investment grade rating.

The weighted quality rating average of the domestic debt securities, excluding pooled investments, at December 31, 2004, was AA and the fair value of below grade investments was $18.102 million or 0.6 percent of the domestic portfolio. The weighted quality rating average of the international debt securities investments, at December 31, 2004, was AA- and the fair value of below grade investments was $44.467 million or 5.79 percent of the international portfolio.

The following table presents the URS ratings as of December 31, 2004:

Pension Trust Funds
Debt Securities Investments at Fair Value
(Expressed in Thousands)

Quality Rating	Domestic	International	Total
AAA	$ 918,837	$ 426,690	$ 1,345,527
AA+	16,022	7,326	23,348
AA	17,510	7,866	25,376
AA-	58,679	69,349	128,028
A+	57,510	11,851	69,361
A	69,726	34,696	104,422
A-	47,167	43,636	90,803
BBB+	44,011	31,646	75,657
BBB	77,201	41,823	119,024
BBB-	79,349	41,267	120,616
BB+	13,946	2,452	16,398
BB-	3,148	668	3,816
B+	—	80	80
NR	1,008	—	1,008
Total credit risk debt securities	1,404,114	719,350	2,123,464
U.S. Government and Agencies**	1,409,587	49,154	1,458,741
Pooled investments*	770,469	112,124	882,593
Total debt securities investments	$ 3,584,170	$ 880,628	$ 4,464,798

* Ratings of pooled investments were unavailable.
** Approximately 54 percent of this category is debt securities of U.S. Agencies rated AAA or equivalent.

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The primary government does not have a formal policy for custodial credit risk.

The primary government's investments at June 30, 2005, except those of the Utah Retirement Systems, were held by the State or in the State's name by the State's custodial banks; except $27.735 million of repurchase agreements where the underlying securities were uninsured and held by the investment's counterparty, not in the name of the State.

At December 31, 2004, the Utah Retirement Systems (URS) debt securities investments were registered in the name of URS and were held in the possession of the URS custodial bank, The Northern Trust Company.

Concentration of Credit Risk—Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Except for the Utah Retirement Systems (pension trust funds), the primary government's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the portfolio. Funds that follow Rule 2 of the Money Management Council are limited to investments in equity securities and fixed income corporate securities to no more than 5 percent of all funds in any one issuer and no more than 25 percent of all funds in any one industry. No more than 5 percent of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5 percent of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies.

The primary government had debt securities investments at June 30, 2005, with more than 5 percent of the total investments in securities of the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation. These investments represented 20.2 percent and 11.5 percent, respectively, of investments subject to concentration of credit risk.

The Utah Retirement Systems debt securities investments had no single issuer investments that exceed their portfolio investment guidelines by sector and by issuer as follows:

- AAA/Aaa Debt Securities — no more than 5 percent of an investment manager's assets at market with a single issuer.
- AA/Aa Debt Securities — no more than 4 percent of an investment manager's assets at market with a single issuer.
- A/A Debt Securities — no more than 3 percent of an investment manager's assets at market with a single issuer.
- BBB/Baa Debt Securities — no more than 2 percent of an investment manager's assets at market with a single issuer.
- For Debt Securities — no individual holding shall constitute more than 10 percent of the market value of outstanding debt of a single issuer with the exception of the U.S. government or its agencies, or collateralized mortgage obligations.

- For Domestic Equity Securities — no more than 4 percent of an investment manager's assets at market with a single issuer.
- For International Equity Securities — no more than 8 percent of an investment manager's assets at market with a single issuer.

Foreign Currency Risk—Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The primary government, except the Utah Retirement Systems (pension trust funds), does not have a formal policy to limit foreign currency risk.

The Utah Educational Savings Plan Trust (private purpose trust) has $52.007 million and the Trust Lands (permanent fund) has $94.416 million invested in international equity funds. As such, no currency denomination is presented.

The Utah Retirement Systems (URS) manage their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk.

Risk of loss arises from changes in currency exchange rates. The URS exposure to foreign currency risk is presented on the following table.

Pension Trust Funds
Foreign Currency Risk
International Investment Securities at Fair Value
At December 31, 2004
(Expressed in Thousands)

Currency	Short Term	Debt	Equity	Total
Argentine peso	$ —	$ 195	$ 3,105	$ 3,300
Aruban guilder	—	1,616	—	1,616
Australian dollar	(4,745)	3,084	48,774	47,113
Brazilian real	—	—	14,507	14,507
Bulgarian lev	—	300	—	300
Canadian dollar	340	10,018	46,570	56,928
Cayman Islands dollar	—	9,380	1,318	10,698
Chilean peso	—	1,353	576	1,929
Danish krone	—	13,422	22,960	36,382
El Salvador colon	—	—	347,801	347,801
Estonia kroon	—	—	3,077	3,077
Ethiopian birr	17,135	—	546,097	563,232
Euro	—	229,815	641,597	871,412
Hong Kong dollar	1,251	—	31,919	33,170
Indian rupee	—	—	5,276	5,276
Japanese yen	(1,084)	56,220	540,525	595,661
Kazakhstan tenge	—	581	374	955
Mexican peso	178	4,572	5,509	10,259
Netherlands Antillan guilder	—	58,191	167,557	225,748
New Jersey dollar	—	—	3,412	3,412
New Taiwan dollar	799	—	11,909	12,708
New Zealand dollar	73	1,865	6,216	8,154
Norwegian krone	—	2,421	9,962	12,383
Panamanian balboa	—	—	3,524	3,524
Poland zloty	—	1,637	—	1,637
Pound sterling	(51,688)	73,441	531,158	552,911
Qatari rial	—	252	—	252
Russian ruble	—	—	1,803	1,803
Singapore dollar	107	3,621	17,879	21,607
South African rand	—	—	1,444	1,444
South Korean won	—	4,176	48,710	52,886
Swedish krona	(367)	28,311	52,769	80,713
Swiss franc	—	—	242,598	242,598
Venezuelan bolivar	—	—	3,655	3,655
International equity mutual fund (various currencies)	—	—	187,830	187,830
Total Securities subject to foreign currency risk	(38,001)	504,471	3,550,411	4,016,881
United States dollars (securities held by international investment managers)	107,096	376,157	12,294	495,547
Total international investment securities	$ 69,095	$ 880,628	$ 3,562,705	$ 4,512,428

B. **COMPONENT UNITS**

Custodial Credit Risk—Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the component unit's deposits may not be recovered.

The component units follow the Money Management Act by making deposits only in qualified financial institutions in accordance with the Act. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the component units at June 30, 2005, were $201,699 million. Of these, $191,260 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The component units follow the applicable investing criteria described above for the primary government, with the exception of Utah Housing Corporation and Public Employees Health Program which are exempt from the Money Management Act.

College and university funds from gifts, private grants, and the corpus of funds functioning as endowments are invested according to Rule 2 of the Money Management Council. As of May 2, 2005, State law changed allowing college and university endowment funds to be invested in accordance with the State Board of Regents default investment guidelines or in accordance with policies adopted by the institutions' board of trustees and approved by the State Board of Regents. For the period ending June 30, 2005, the State Board of Regents has required all institutions to continue investing endowment funds in accordance with Rule 2 of the Money Management Council.

The component units' investments at June 30, 2005, are presented below.

Component Units Investments
(Expressed in Thousands)

		Investment Maturities (in years)				
Investment Type	Fair Value	Less Than 1	1–5	6–10	11–20	More Than 20
Debt Securities						
U.S. Treasuries	$ 156,978	$ 56,752	$ 98,687	$ 1,106	$ 433	$ —
Government National Mortgage Association	26	—	—	—	—	26
U.S. Agencies	468,682	79,015	209,725	18,524	154,096	7,322
Corporate Debt	45,096	11,413	11,625	17,115	1,325	3,618
Money Market Mutual Funds	213,831	208,065	508	5,258	—	—
Negotiable Certificates of Deposit	1,507	888	619	—	—	—
Municipal/Public Bonds	5,647	75	2,645	2,092	835	—
Repurchase Agreements	17,276	15,140	—	—	53	2,083
Guaranteed Investment Contracts	282,869	242,885	3,963	—	36,021	—
Bond Mutual Funds	17,512	—	13,062	4,450	—	—
Securities Lending Cash Collateral Pool	42,345	42,345	—	—	—	—
Utah Public Treasurer's Investment Fund	727,302	727,302	—	—	—	—
	1,979,071	$ 1,383,880	$ 340,834	$ 48,545	$ 192,763	$ 13,049
Other Investments						
Equity Securities:						
Domestic	44,723					
International	386					
Equity Mutual Funds Securities:						
Domestic	274,725					
Mutual Fund – Real Estate	1,426					
Hedge Funds	42,925					
Venture Capital Funds	3,752					
Total	$ 2,347,008					

Interest Rate Risk—Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units' policy for managing interest rate risk is the same as described above for the primary government.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The component units' policy for reducing exposure to investment credit risk is the same as described above for the primary government. The component units' debt investments as of June 30, 2005, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Component Units Rated Debt Investments
(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings AAA	AA	A	BBB
U.S. Agencies	$ 468,682	$ 468,680	$ —	$ —	$ —
Corporate Debt	$ 45,096	$ 2,065	$ 1,036	$ 20,606	$ 15,619
Money Market Mutual Funds	$ 213,831	$ 15,794	$ —	$ —	$ —
Negotiable Certificates of Deposit	$ 1,507	$ —	$ —	$ —	$ —
Municipal/Public Bonds	$ 5,647	$ 5,647	$ —	$ —	$ —
Guaranteed Investment Contracts	$ 282,869	$ —	$ —	$ —	$ —
Bond Mutual Funds	$ 17,512	$ —	$ —	$ —	$ —
Securities Lending Cash Collateral Pool	$ 42,345	$ —	$ —	$ —	$ —
Utah Public Treasurer's Investment Fund	$ 727,302	$ —	$ —	$ —	$ —
Repurchase Agreements – Underlying:					
U.S. Agencies	$ 2,304	$ 2,304	$ —	$ —	$ —
Money Market Mutual Funds	$ 14,919	$ —	$ —	$ —	$ —

Continues Below

Debt Investments	Quality Ratings BB	Unrated
U.S. Agencies	$ —	$ 2
Corporate Debt	$ 4,726	$ 1,044
Money Market Mutual Funds	$ —	$ 198,037
Negotiable Certificates of Deposit	$ —	$ 1,507
Municipal/Public Bonds	$ —	$ —
Guaranteed Investment Contracts	$ —	$ 282,869
Bond Mutual Funds	$ —	$ 17,512
Securities Lending Cash Collateral Pool	$ —	$ 42,345
Utah Public Treasurer's Investment Fund	$ —	$ 727,302
Repurchase Agreements – Underlying:		
U.S. Agencies	$ —	$ —
Money Market Mutual Funds	$ —	$ 14,919

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the component units will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The component units do not have a formal policy for custodial credit risk.

The various component units' investments at June 30, 2005, were held by the component unit or in the name of the component unit by the component unit's custodial bank or trustee, except the following which were uninsured, were not registered in the name of the component unit, and were held by (expressed in thousands):

Counterparty		
U.S. Treasuries	$	99,962
U.S. Agencies	$	91,096
Corporate Debt	$	9
Repurchase Agreements	$	9,329
Counterparty's Trust Department or Agent		
U.S. Agencies	$	8,016
Corporate Debt	$	11,570
Municipal/Public Bonds	$	266
Repurchase Agreements	$	7,290
Equity Securities	$	5,119

Concentration of Credit Risk—Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Except for Utah Housing Corporation, the component units' policy for reducing this risk of loss is the same as described above for the primary government.

The Utah Housing Corporation places no limit on the amount the Corporation may invest in any one issuer. More than five percent of the Corporation's investments are in Trinity Guaranteed Investment Contracts, CDC Guaranteed Investment Contracts, the Federal National Mortgage Association, and Transamerica Guaranteed Investment Contracts. These investments are 15.30 percent, 10.09 percent, 8.97 percent, and 5.63 percent, respectively, of the Corporation's total investments.

C. **Securities Lending**

The Utah Retirement Systems (pension trust funds) and the Public Employees Health Program (component unit) participate in security lending programs as authorized by their Boards. The types of securities lent are U.S. government securities, equity securities, and corporate bonds and notes. Under these programs, securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and irrevocable bank letters of credit equal to 102 percent of the market value of the domestic securities on loan and 105 percent of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. There are no restrictions on the amount of loans that can be made. For both state entities, their custodial bank is the agent for its securities lending program. Securities under loan are maintained in both state entities' financial records. Corresponding liabilities for collateral received are recorded at the fair value.

At yearend, neither the Utah Retirement Systems nor Public Employees Health Program had any credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan at yearend for the entities were $2.31 billion and $41.437 million, respectively, and the collateral received for those securities on loan was $2.369 billion and $42.894 million (includes $538 thousand of non-cash collaterals), respectively, with carrying amount and fair value being the same. Under the terms of the lending agreement, both state entities are indemnified against loss should the lending agent be unable to recover borrowed securities and distributions due to borrower insolvency or failure of the lending agent to properly evaluate the creditworthiness of the borrower. In addition, they are indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis. All securities loaned can be terminated on demand by either the state entity or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20 percent of the invested cash collateral is to be available each business day and that the dollar weighted average maturity of holdings should not exceed 60 days. The relationship between the maturities of the short-term investment pool and each of the state entities' loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the state entities cannot determine. Since the securities lending collateral is in a pool maintained by the custodial bank, the state entities do not have the ability to pledge or sell the securities, and it is not necessary to report the total income and expenses of securities lending.

D. Derivative Financial Instruments

Utah Retirement Systems

The Utah Retirement Systems (URS) (pension trust funds) invests in derivative financial investments as authorized by Board policy. The derivatives are reported at their fair values on the statement of net assets. Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from the performance of some agreed upon benchmark. At December 31, 2004, URS had four types of derivative financial investments: futures, currency forwards, options, and swaps.

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded), thereby minimizing URS's credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Net Assets. At December 31, 2004, URS investments had the following futures balances (expressed in millions):

		Value Covered By Contract
Long-cash and cash equivalent futures	$	459.956
Long-equity futures	$	468.719
Short-equity futures	$	(298.808)
Long-debt securities futures	$	539.312
Short-debt securities futures	$	136.170

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rates on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net realized gains or losses on foreign currency related transactions. At December 31, 2004, URS investments included the following currency forwards balances (expressed in billions):

Currency forwards (*pending foreign exchange purchases*)	$	1.206
Currency forwards (*pending foreign exchange sales*)	$	(1.218)

Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specific period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, URS receives a premium at the outset of the agreement and bear the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, URS pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. At December 31, 2004, URS investments had the following options balances (expressed in thousands):

		Value Covered By Contract
Cash and cash equivalent purchased call options	$	933
Cash and cash equivalent purchased put options	$	400
Fixed income written put options	$	(897)
Fixed income written call options	$	(157)

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At the end of the year, URS had two different types of swap arrangements: interest rate swaps and credit default swaps. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counter party who, in turn, agrees to make return interest payments that float with some reference rate. The interest rate swaps allowed URS to convert their long term variable interest rate credit facility loans into fixed interest rate loans. The credit default swaps protects the rental cash flows on one of URS real estate investments in case the major tenant defaults on its lease contract. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Net Assets. At December 31, 2004, URS investments had the following swap market value balances:

Utah Retirement Systems
Interest Rate Swaps
December 31, 2004
(Expressed in Thousands)

	Outstanding Notational Amount*	Interest Rate**	Maturity Date	Fair Value
Interest Rate Swaps				
Morgan Stanley Interest Rate Swap	$ 32,600	5.162% – 3 month LIBOR	8/15/2015	$ (897)
Morgan Stanley Interest Rate Swap	20,000	4.447% – LIBOR	10/20/2014	45
Morgan Stanley Interest Rate Swap	37,000	4.406% – LIBOR	11/01/2014	174
Morgan Stanley Interest Rate Swap	120,000	4.163% – LIBOR	12/01/2007	75
Morgan Stanley Interest Rate Swap	38,000	3.4675% – LIBOR	11/02/2007	55
Total	$ 247,600			$ (548)
Credit Facility Swaps				
Morgan Stanley Credit Default Swaps	$ 111,000		9/29/2008	$ (1,166)

* Base used to calculate interest
** London Interbank Offered Rate

Utah Housing Corporation

The following are disclosures for derivative financial instruments held by Utah Housing Corporation (major component unit).

Objective — In order to protect against the potential of rising interest rates, the Corporation has entered into 50 separate pay-fixed, receive-variable interest rate swaps and one interest rate cap agreement as of June 30, 2005. The cost of these swaps is less than what the Corporation would have paid to issue fixed rate debt. The Corporation's swaps are all similar in nature and summary information is included in this report. More detailed information about each swap is included in the Corporation's separately issued financial statements.

Terms, Fair Values, and Credit Risk — The terms, including the fair values of the outstanding swaps as of June 30, 2005, are summarized below. The notional amounts of the swaps match the principal amounts of the associated debt at the time of issuance. Except as discussed under rollover risk, the Corporation's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Utah Housing Corporation
Interest Rate Swap and Cap Agreements
June 30, 2005
(Expressed in Thousands)

Outstanding Notational Amount	Issue Dates	Fixed Rate Paid by the Corporation	Variable Rate Received from Counterparty	Fair Values	Termination Dates
Interest Rate Swap Agreements					
$ 79,910	2000–2002	4.640% to 7.760%	LIBOR* plus .15%	$ (7,194)	2006–2021
462,220	2000–2005	3.939% to 5.610%	BMA** plus .27%	(47,259)	2021–2028
$ 542,130				$ (54,453)	
Interest Rate Cap Agreements					
$ 1,955	2005	1.02%	Excess of BMA ** over 5.73%	$ (139)	2027

* London Interbank Offered Rate
** The Bond Market Association Municipal Swap Index

Fair Values — Because interest rates have declined, all swaps had a negative fair value to the Corporation as of June 30, 2005. The negative fair values are a function of declining interest rates and the remaining term on the swap contracts. Because the coupons on the Corporation's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. However, bond proceeds were used to acquire fixed rate mortgage loans, which support the fixed payer rate on the swaps. Although these mortgage loans do have higher than current market interest rates, they have not been adjusted for fair value on the financial statements.

The fair values of the swap contracts were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk — As of June 30, 2005, the Corporation was not exposed to credit risk on any of its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Corporation would be exposed to credit risk in the amount of the derivatives' fair value. The Corporation executes swap transactions with two counterparties, Lehman Brothers Financial Products, Inc. and Lehman Brothers Derivative Products, Inc. Both counterparties are rated AAA/Aaa.

Basis Risk — The Corporation's tax-exempt variable-rate bond coupon payments are equivalent to the BMA rate. Its taxable variable-rate bond coupon payments are equivalent to the LIBOR rate. The Corporation is therefore not exposed to basis risk except as disclosed below under Tax Risk/Cross-over.

Tax Risk / Cross-over — Nineteen of the Corporation's BMA based swaps are exposed to basis risk should Congress or other federal branches of government propose or pass legislation (a "Tax Event"), that causes the relationship between LIBOR and BMA to exceed 75 percent for a continuous period of 180 days. If these two triggers occur, the result would be that the swap provider would pay the Corporation 68 percent of the LIBOR rate regardless of what the BMA rate is. In addition, two of the Corporation's BMA based Cross-over Swaps are also exposed to basis risk if the LIBOR rate is 3.5 percent or greater. When the LIBOR rate is 3.5 percent or greater, the provider will pay the Corporation 68 percent of the LIBOR rate regardless of what the BMA rate is. As of June 30, 2005, no "Tax Event" or "Cross-over Event" has occurred.

Termination Risk — The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract.

Rollover Risk — The Corporation is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, or in the case of the termination option, the Corporation will not realize the synthetic rate offered by the swaps on the underlying debt issues. As of June 30, 2005, the Corporation's swap termination dates ranged from 7 to 24 years prior to the maturity dates of the associated debt.

NOTE 4. INVESTMENT POOL

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF) investment pool. The PTIF is available for investment of funds administered by any Utah public treasurer. Participation is not required and no minimum balance or minimum/maximum transaction is required. State agencies and funds that are authorized to earn interest also invest in the PTIF as an internal investment pool. No separate report as an external investment pool has been issued for the PTIF.

The PTIF is not registered with the SEC as an investment company and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act, (*Utah Code* Title 51, Chapter 7). The Act establishes the Money Management Council, which oversees the activities of the State Treasurer and the PTIF. The Act lists the investments that are authorized which are high-grade securities and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participant's share to the total funds in the PTIF based on the participant's average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor that enables them to adjust their statement balances to fair value.

The PTIF condensed financial statements, inclusive of external and internal participants along with the portfolio statistics for the fiscal year ended June 30, 2005, are as follows:

Public Treasurer's Investment Fund
Statement of Net Assets
June 30, 2005
(*Expressed in Thousands*)

Assets	
Cash and Cash Equivalents	$ 328,066
Investments	6,570,300
Interest Receivable	28,139
Net Assets	$ 6,926,505
Net Assets Consist of:	
External Participant Account Balances	$ 3,989,260
Internal Participant Account Balances:	
Primary Government	2,189,976
Component Units	726,936
Undistributed Reserves and Unrealized Gains/Losses	20,333
Net Assets	$ 6,926,505
Participant Account Balance Net Asset Valuation Factor	1.000154

Public Treasurer's Investment Fund
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2005
(*Expressed in Thousands*)

Additions	
Pool Participant Deposits	$ 9,987,451
Investment Income:	
Investment Earnings	157,520
Fair Value Increases (Decreases)	(3,053)
Total Investment Income	154,467
Less Administrative Expenses	(142)
Net Investment Income	154,325
Total Additions	10,141,776
Deductions	
Pool Participant Withdrawals	8,941,997
Earnings Distributions	158,440
Total Deductions	9,100,437
Net Increase From Operations	1,041,339
Net Assets	
Beginning of Year	5,885,166
Net Assets – End of Year	$ 6,926,505

Public Treasurer's Investment Fund
Portfolio Statistics

June 30, 2005	Range of Yields	Weighted Average Maturity
Money Market Mutual Fund	3.02%	59 days
Certificates of Deposit	3.14% – 3.54%	33.58 days
U.S. Agencies	2.50% – 4.00%	66.04 days
Corporate Bonds and Notes	2.22% – 4.36%	58.33 days
Commercial Paper	3.09% – 3.41%	21.42 days

June 30, 2005	Weighted Average Yield	Average Adjusted Maturity
Total Investment Fund	3.18%	56.89 days

Deposits and Investments

The following disclosure of deposits and investments is for the PTIF, which includes external and internal participants. These assets are also included in the Note 3 disclosures of deposits and investments for the primary government. To avoid duplication, some of the detailed information in Note 3 has not been repeated in this note.

Custodial Credit Risk — Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the PTIF's deposits may not be recovered. The PTIF follows the Money Management Act by making deposits only in qualified financial institutions in accordance with the Act.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the PTIF at June 30, 2005, were $34.585 million. Of those, $34.200 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The PTIF follows the Money Management Act by investing only in securities authorized in the Act. See Note 3 for information on authorized investments.

The PTIF investments at June 30, 2005, are presented below.

Public Treasurer's Investment Fund Investments
(Expressed in Thousands)

		Investment Maturities (in years)	
Investment Type	Fair Value	Less Than 1	1–5
Debt Securities			
U.S. Agencies	$ 2,347,413	$ 2,337,413	$ 10,000
Corporate Bonds and Notes	3,912,705	3,912,705	—
Negotiable Certificates of Deposit	302,632	302,632	—
Money Market Mutual Fund	190,000	190,000	—
Commercial Paper	119,988	119,988	—
	$ 6,872,738	$ 6,862,738	$ 10,000

The majority of the PTIF's U.S. agencies and corporate debt securities are variable-rate securities, most of which reset every three months to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date. In the table above, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

U.S. agency debt securities of $2.1 billion of the PTIF reset periodically and have a maximum maturity out to four years. The securities "step up" to higher interest rates at levels determined at the time of purchase. These securities are callable at par and may be called on a quarterly basis, or will mature at par if held to maturity. In the event that current market interest rates were to exceed the predetermined rates, the fair value of the securities would be impacted. Of the securities of this type held at June 30, 2005, none had predetermined interest rates below the current market rate. The above table reflects periodic interest rate adjustment dates that the securities can reasonably be expected to have market values that approximate their amortized cost values.

Interest Rate Risk—Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The PTIF's policy for managing interest rate risk is to comply with the State's Money Management Act. See Note 3 for information on requirements of the Act related to interest rate risk.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The PTIF follows the Money Management Act as its policy for reducing exposure to investment credit risk. The PTIF's rated debt investments as of June 30, 2005, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Public Treasurer's Investment Fund Rated Debt Investments
(Expressed in Thousands)

Rated Debt Investments	Fair Value	Quality Ratings AAA	AA	A	BBB
U.S. Agencies	$ 2,347,413	$ 2,176,748	$ —	$ 170,665	$ —
Corporate Bonds and Notes	$ 3,912,705	$ 209,824	$ 709,649	$ 2,684,018	$ 271,282
Negotiable Certificates of Deposit	$ 302,632	$ —	$ —	$ 272,735	$ 29,897
Money Market Mutual Fund	$ 190,000	$ —	$ —	$ —	$ —
Commercial Paper	$ 119,988	$ —	$ —	$ —	$ —

Continues Below

Rated Debt Investments	Quality Ratings BB	A1 *	Not Rated
U.S. Agencies	$ —	$ —	$ —
Corporate Bonds and Notes	$ 37,932	$ —	$ —
Negotiable Certificates of Deposit	$ —	$ —	$ —
Money Market Mutual Fund	$ —	$ —	$ 190,000
Commercial Paper	$ —	$ 119,988	$ —

***** A1 is Commercial Paper rating

Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The PTIF's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5 percent of the total dollar amount held in the portfolio. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies. The PTIF had debt securities investments at June 30, 2005, with more than 5 percent of the total investments in Federal Home Loan Bank and Federal Home Loan Mortgage Corporation. These investments represented 20.2 percent and 11.4 percent, respectively, of total investments.

NOTE 5. RECEIVABLES

Receivables as of June 30, 2005, consisted of the following (in thousands):

	Accounts Receivable					
	Federal	**Customer**	**Other**	**Interest**	**Taxes**	**Notes/ Mortgages**
Governmental Activities:						
General Fund	$ 189,755	$ 228,267	$ 534	$ 42	$ 266,523	$ 10,227
Uniform School Fund	36,599	1,354	1	—	465,814	3,783
Transportation Fund	37,624	118	6,386	—	59,070	376
Centennial Highway Fund	18,946	—	—	—	776	—
Trust Lands	—	—	17,115	1,478	—	4,800
Nonmajor Funds	677	2,463	—	81	—	155
Internal Service Funds	—	2,602	—	—	—	—
Adjustments:						
Fiduciary Funds	—	—	160	—	—	—
Total Receivables	283,601	234,804	24,196	1,601	792,183	19,341
Less Allowance for Uncollectibles:						
General Fund	—	(58,233)	—	—	(16,651)	(1,276)
Uniform School Fund	—	—	—	—	(81,127)	—
Transportation Fund	—	—	(200)	—	(841)	—
Centennial Highway Fund	—	—	—	—	(48)	—
Internal Service Funds	—	(131)	—	—	—	—
Receivables, net	$ 283,601	$ 176,440	$ 23,996	$ 1,601	$ 693,516	$ 18,065
Current Receivables	$ 283,601	$ 154,180	$ 7,671	$ 1,601	$ 652,140	$ 6,228
Noncurrent Receivables	—	22,260	16,325	—	41,376	11,837
Total Receivables, net	$ 283,601	$ 176,440	$ 23,996	$ 1,601	$ 693,516	$ 18,065
Business-type Activities:						
Student Assistance Programs	$ 17,872	$ 462	$ —	$ 15,029	$ —	$ 1,457,267
Unemployment Compensation	119	87,057	—	—	—	—
Water Loan Programs	—	133	—	8,393	—	475,026
Nonmajor Funds	—	6,776	238	3,447	—	251,987
Total Receivables	17,991	94,428	238	26,869	—	2,184,280
Less Allowance for Uncollectibles:						
Student Assistance Programs	—	—	—	—	—	(2,981)
Unemployment Compensation	—	(11,764)	—	—	—	—
Water Loan Programs	—	—	—	—	—	—
Receivables, net	$ 17,991	$ 82,664	$ 238	$ 26,869	$ —	$ 2,181,299

Accounts receivable balances are an aggregation of amounts due from the federal government, customers, and others. Receivables from customers include charges for services to local governments, fees and fines issued by the courts and corrections, employer contributions for unemployment benefits, and receivables as a result of overpayments to individuals receiving state assistance.

Receivables for fiduciary funds listed above represent amounts due from fiduciary funds that were reclassified as external receivables on the government-wide Statement of Net Assets.

Aggregated receivables for component units at June 30, 2005, were $1.251 billion for major component units and $71.865 million for nonmajor component units, net of an allowance for doubtful accounts of $45.46 million and $3.737 million, respectively.

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2005, consisted of the following (in thousands):

	Salaries/ Benefits	Service Providers	Vendors/ Other	Government	Tax Refunds	Interest	Total
Governmental Activities:							
General Fund	$ 70,550	$ 185,159	$ 25,899	$ 70,822	$ 9,121	$ —	$ 361,551
Uniform School Fund	2,903	1,548	5,087	32,625	17,243	—	59,406
Transportation Fund	8,308	168	51,983	48,074	3,602	—	112,135
Centennial Highway Fund	—	—	162	—	—	—	162
Trust Lands Permanent Fund	—	—	362	—	—	—	362
Nonmajor Funds	69	—	20,041	134	—	37,505	57,749
Internal Service Funds	2,301	—	8,562	212	—	10	11,085
Adjustments:							
Fiduciary Funds	—	—	—	1,148	—	—	1,148
Other	—	—	—	—	—	1,637	1,637
Total Governmental Activities	$ 84,131	$ 186,875	$ 112,096	$ 153,015	$ 29,966	$ 39,152	$ 605,235
Business-type Activities:							
Student Assistance Programs	$ 1,000	$ —	$ 7,955	$ 1,570	$ —	$ 6,021	$ 16,546
Unemployment Compensation	—	1,271	—	13	—	—	1,284
Water Loan Programs	—	—	173	—	—	—	173
Nonmajor Funds	1,539	—	10,402	—	—	183	12,124
Adjustments:							
Fiduciary Funds	—	—	—	123	—	—	123
Total Business-type Activities	$ 2,539	$ 1,271	$ 18,530	$ 1,706	$ 0	$ 6,204	$ 30,250

Accounts payable and accrued liability balances are an aggregation of amounts due to: (***1***) state employees for salaries/benefits; (***2***) service providers for childcare, job services and health services; (***3***) vendors and miscellaneous suppliers; (***4***) local and federal governments for services; (***5***) individuals and others as a result of tax overpayments; and (***6***) interest due on bonds and other obligations.

Adjustments for fiduciary funds listed above represent amounts due to fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Assets. Other adjustments are due to differences in the presentation and the basis of accounting between the fund financial statements and the government-wide Statement of Net Assets.

NOTE 7. INTERFUND BALANCES AND LOANS

Interfund Balances

Interfund balances at June 30, 2005, consisted of the following (in thousands):

Due to General Fund from:	
Uniform School Fund	$ 263
Transportation Fund	1,519
Trust Lands Fund	25
Nonmajor Governmental Funds	696
Unemployment Compensation Fund	3,921
Water Loan Programs	82
Nonmajor Enterprise Funds	8,297
Internal Service Funds	4,335
Fiduciary Funds	149
Total due to General Fund from other funds	$ 19,287
Due to Uniform School Fund from:	
General Fund	549
Trust Lands Fund	31
Unemployment Compensation Fund	234
Nonmajor Enterprise Funds	1,533
Internal Service Funds	48
Total due to Uniform School Fund from other funds	$ 2,395
Due to Transportation Fund from:	
General Fund	137
Uniform School Fund	1
Nonmajor Governmental Funds	17
Nonmajor Enterprise Funds	5
Internal Service Funds	185
Total due to Transportation Fund from other funds	$ 345
Due to Trust Lands Fund from Nonmajor Enterprise Funds	$ 1,659
Due to Nonmajor Governmental Funds from:	
General Fund	931
Nonmajor Governmental Funds	30
Nonmajor Enterprise Funds	459
Internal Service Funds	250
Fiduciary Funds	3
Total due to Nonmajor Governmental Funds from other funds	$ 1,673
Due to Water Loan Programs from:	
General Fund	10
Trust Lands Fund	22
Total due to Water Loan Programs from other funds	$ 32
Due to Nonmajor Enterprise Funds from:	
General Fund	$ 621
Uniform School Fund	19
Transportation Fund	126
Nonmajor Governmental Funds	8,839
Water Loan Programs	5
Internal Service Funds	1
Total due to Nonmajor Enterprise Funds from other funds	$ 9,611
Due to Internal Service Funds from:	
General Fund	8,942
Uniform School Fund	368
Transportation Fund	2,546
Nonmajor Governmental Funds	1,399
Nonmajor Enterprise Funds	139
Internal Service Funds	187
Fiduciary Funds	8
Total due to Internal Service Funds from other funds	$ 13,589
Due to Fiduciary Funds from:	
General Fund	1,133
Transportation Fund	5
Trust Lands Fund	10
Nonmajor Enterprise Funds	123
Total due to Fiduciary Funds from other funds	$ 1,271
Total Due to/Due froms	$ 49,862

These balances resulted from the time lags between the dates that: (***1***) interfund goods and services are provided or reimbursable expenditures occur; (***2***) transactions are recorded in the accounting system; and (***3***) payments between funds are made.

Interfund Loans

Interfund loans at June 30, 2005, consisted of the following (in thousands):

Payable to General Fund from Internal Service Funds	$ 32,520
Payable to Uniform School Fund from Internal Service Fund	13
Payable to Nonmajor Enterprise Funds from Internal Service Funds	40
Total Interfund Loans Receivable/Payable	$ 32,573

The interfund loans receivable/payable balances consist of revolving loans with Internal Service Funds. The balance payable to the General Fund from Internal Service Funds of $32.520 million includes $14.893 million that is not expected to be repaid within one year.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land and Related Assets	$ 721,635	$ 22,704	$ (362)	$ 743,977
Infrastructure	7,262,468	315,728	(32,847)	7,545,349
Construction-In-Progress	683,140	398,312	(487,353)	594,099
Total Capital Assets not being Depreciated	8,667,243	736,744	(520,562)	8,883,425
Capital Assets being Depreciated:				
Buildings and Improvements	1,021,457	157,622	(1,087)	1,177,992
Infrastructure	30,873	2,338	—	33,211
Machinery and Equipment	431,694	37,879	(22,598)	446,975
Total Capital Assets being Depreciated	1,484,024	197,839	(23,685)	1,658,178
Less Accumulated Depreciation for:				
Buildings and Improvements	(337,815)	(30,687)	500	(368,002)
Infrastructure	(4,573)	(1,433)	—	(6,006)
Machinery and Equipment	(284,406)	(40,626)	18,078	(306,954)
Total Accumulated Depreciation	(626,794)	(72,746)	18,578	(680,962)
Total Capital Assets being Depreciated, Net	857,230	125,093	(5,107)	977,216
Capital Assets, Net	$ 9,524,473	$ 861,837	$ (525,669)	$ 9,860,641
Business-type Activities:				
Capital Assets not being Depreciated:				
Land and Related Assets	$ 17,235	$ 5,501	$ (422)	$ 22,314
Construction-In-Progress	—	479	—	479
Total Capital Assets not being Depreciated	17,235	5,980	(422)	22,793
Capital Assets being Depreciated:				
Buildings and Improvements	44,833	447	(1,456)	43,824
Infrastructure	—	204	—	204
Machinery and Equipment	11,943	2,418	(470)	13,891
Total Capital Assets being Depreciated	56,776	3,069	(1,926)	57,919
Less Accumulated Depreciation for:				
Buildings and Improvements	(7,018)	(1,053)	16	(8,055)
Infrastructure	—	(49)	—	(49)
Machinery and Equipment	(9,267)	(1,442)	255	(10,454)
Total Accumulated Depreciation	(16,285)	(2,544)	271	(18,558)
Total Capital Assets being Depreciated, Net	40,491	525	(1,655)	39,361
Capital Assets, Net	$ 57,726	$ 6,505	$ (2,077)	$ 62,154

Construction-in-progress of governmental activities includes amounts for buildings the State is constructing for colleges and universities (component units) that are funded by state appropriations or state bond proceeds. As the buildings are completed, the applicable amounts are deleted from construction-in-progress of governmental activities and "transferred" to the colleges and universities. For fiscal year 2005, $18.536 million of buildings were completed for colleges and universities. On the government-wide statement of activities, the building "transfers" are reported as higher education expenses of governmental activities and as program revenues of component units.

Amounts in the beginning balances column of governmental activities have been adjusted by a net increase of $2.724 million as follows: Buildings and improvements were increased by $14.238 million; machinery and equipment was decreased by $0.7 million. The related accumulated depreciation was increased by $10.814 million. These adjustments corrected beginning balances as described in Note 2.

Depreciation expense of governmental activities was charged to functions as follows (in thousands):

General Government	$ 28,057
Human Services and Youth Corrections	436
Corrections, Adult	695
Public Safety	3,086
Courts	791
Health and Environmental Quality	1,603
Employment and Family Services	1,217
Natural Resources	6,042
Community and Economic Development	142
Business, Labor, and Agriculture	630
Public Education	291
Transportation	9,541
Depreciation on capital assets of the State's internal service funds is charged to the various functions based on their usage of services provided	20,216
Total	$ 72,747

Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands):

	Utah Housing Corporation	Public Employees Health Program	University of Utah	Utah State University	Nonmajor Component Units	Total
Capital Assets not being Depreciated:						
Land and Other Assets	$ 1,472	$ —	$ 53,287	$ 12,783	$ 57,296	$ 124,838
Construction-In-Progress	—	—	86,659	38,935	11,889	137,483
Total Capital Assets not being Depreciated	1,472	—	139,946	51,718	69,185	262,321
Capital Assets being Depreciated:						
Building and Improvements	4,990	—	1,121,664	437,308	963,325	2,527,287
Infrastructure	—	—	131,765	—	37,536	169,301
Machinery and Equipment	1,287	4,274	629,567	162,305	162,003	959,436
Total Capital Assets being Depreciated	6,277	4,274	1,882,996	599,613	1,162,864	3,656,024
Less Total Accumulated Depreciation	(1,036)	(3,349)	(928,162)	(265,465)	(430,572)	(1,628,584)
Total Capital Assets being Depreciated, Net	5,241	925	954,834	334,148	732,292	2,027,440
Discretely Presented Component Units – Capital Assets, Net	$ 6,713	$ 925	$ 1,094,780	$ 385,866	$ 801,477	$ 2,289,761

The State had long-term construction project commitments totaling $283.718 million at June 30, 2005. The following construction projects have remaining commitments and represent reservations of fund balance in the Capital Projects Funds (nonmajor governmental funds):

Capital Projects Fund
Construction Project Commitments
(Expressed in Thousands)

Project	Description	Remaining Construction Commitment
02156050	State Capitol Restoration	$ 138,196
02032750	U of U Marriott Library Renovation	51,059
03200770	USU – New West Student Housing	21,792
01009750	U of U – Moran Eye Center Ph II	17,415
02029770	USU – New Merrill Library	6,401
02026300	New Ogden Regional Center	6,247
01284750	U of U – John & Marva Warnock Building	6,228
04150620	CEU San Juan Library & Health Sciences Building	4,782
02243750	U of U – New Museum of Natural History	3,542
02042750	U of U – Health Sciences Education Building	2,685
03236790	UVSC – Energy Improvements	1,704
04256100	Draper Prison – Vocational Training Center	1,332
04024220	DATC – Roy & Elizabeth Simmons Entrepreneurial Center	1,315
04171700	Snow College – Upgrade Boiler	1,155
97097050	State Capitol Remodel Design	1,027
—	All Others	18,838
	Total Commitments	$ 283,718

NOTE 9. LEASE COMMITMENTS

The State leases office buildings and office and computer equipment. Although the lease terms vary, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If an appropriation is reasonably assured, leases are considered noncancellable for financial reporting purposes.

Leases, that in substance are purchases, are reported as capital lease obligations. In the government-wide financial statements and proprietary fund financial statements, assets and liabilities resulting from capital leases are recorded at the inception of the lease at either the lower of fair value or the present value of the future minimum lease payments. The principal portion of lease payments reduces the liability, and the interest portion is expensed.

On the governmental fund financial statements, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function.

The primary government's capital lease payments were $1.971 million in principal and $833 thousand in interest for fiscal year 2005. The historical cost and accumulated depreciation of the primary government's assets acquired through capital leases were $26.257 million and $7.586 million, respectively, as of June 30, 2005.

Operating leases contain various renewal options, as well as some purchase options. However, due to the nature of the leases, they do not qualify as capital leases and the related assets and liabilities are not recorded. Any escalation clauses, sublease rentals, and contingent rents were considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses when paid or incurred.

Operating lease expenditures for fiscal year 2005 were $25.321 million for the primary government and $18.635 million for component units. For fiscal year 2004, the operating lease expenditures were $24.686 million for the primary government and $16.595 million for component units. Future minimum lease commitments for noncancellable operating leases and capital leases as of June 30, 2005, were as follows:

Future Minimum Lease Commitments
(Expressed in Thousands)

	Operating Leases			Capital Leases		
Fiscal Year	**Primary Government**	**Component Units**	**Total**	**Primary Government**	**Component Units**	**Total**
2006	$ 21,221	$ 29,631	$ 50,852	$ 2,518	$ 15,474	$ 17,992
2007	16,616	27,334	43,950	2,548	13,122	15,670
2008	12,278	25,507	37,785	2,611	11,725	14,336
2009	8,951	23,404	32,355	2,186	24,085	26,271
2010	4,284	18,662	22,946	2,246	6,578	8,824
2011–2015	8,855	81,354	90,209	8,114	33,256	41,370
2016–2020	5,338	54,593	59,931	6,586	4,952	11,538
2021–2025	1,573	49,805	51,378	4,198	3,329	7,527
2026–2030	9	88	97	47	—	47
Total Future Minimum Lease Payments	$ 79,125	$ 310,378	$ 389,503	31,054	112,521	143,575
Less Amounts Representing Interest				(10,123)	(21,382)	(31,505)
Present Value of Future Minimum Lease Payments				$ 20,931	$ 91,139	$ 112,070

NOTE 10. LONG-TERM LIABILITIES

A. Changes in Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005, are presented in the following schedule. As referenced below, certain long-term liabilities are discussed in other Notes to the Financial Statements.

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds	$ 1,510,160	$ 140,635	$ (136,285)	1,514,510	$ 137,120
State Building Ownership Authority Lease Revenue Bonds	335,941	42,622	(69,665)	308,898	15,672
Net Unamortized Premiums	108,594	12,110	(19,309)	101,395	—
Deferred Amount on Refunding	(26,966)	(2,102)	3,707	(25,361)	—
Capital Leases (Note 9)	22,902	—	(1,971)	20,931	1,287
Contracts Payable	8,000	527	—	8,527	304
Compensated Absences (Notes 1 and 17)	139,594	59,813	(59,378)	140,029	65,531
Claims	40,423	11,250	(7,000)	44,673	11,223
Total Governmental Long-term Liabilities	$ 2,138,648	$ 264,855	$ (289,901)	$ 2,113,602	$ 231,137
Business-type Activities					
Revenue Bonds	$ 1,398,520	$ 151,080	$ (4,770)	$ 1,544,830	$ 144,920
State Building Ownership Authority Lease Revenue Bonds	23,330	13,347	(6,005)	30,672	1,213
Net Unamortized Premiums	237	929	(105)	1,061	—
Deferred Amount on Refunding	—	(492)	28	(464)	—
Claims and Uninsured Liabilities	8,124	140,533	(142,632)	6,025	3,687
Arbitrage Liability (Note 1)	61,766	4,995	(350)	66,411	2,103
Total Business-type Long-term Liabilities	$ 1,491,977	$ 310,392	$ (153,834)	$ 1,648,535	$ 151,923
Component Units					
Revenue Bonds	$ 1,570,060	$ 433,753	$ (259,069)	$ 1,744,744	$ 137,588
Net Unamortized Premiums/(Discounts)	677	(1,256)	(185)	(764)	(68)
Capital Leases/Contracts Payable (Notes 9 and 10)	75,154	34,282	(12,714)	96,722	13,067
Notes Payable	42,999	4,902	(4,045)	43,856	2,911
Claims	102,706	486,207	(478,172)	110,741	66,041
Leave/Termination Benefits (Note 1)	71,481	45,992	(41,719)	75,754	19,321
Total Component Unit Long-term Liabilities	$ 1,863,077	$ 1,003,880	$ (795,904)	$ 2,071,053	$ 238,860

Compensated absences of governmental activities are liquidated in the General Fund, Uniform School Fund, or Transportation Fund according to the applicable employing state agency. Claims liabilities of governmental activities are liquidated in the Risk Management Internal Service Fund.

Postemployment benefits of the governmental activities were eliminated resulting in a reduction of the beginning governmental long-term liabilities of $240.538 million. In preparation of implementing GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* for the fiscal year beginning July 1, 2006 (the transition year), the postemployment liability previously included in the governmental activities of the primary government was eliminated. See Note 2.

The long-term liability, contracts payable, was added to governmental activities resulting in an $8 million increase to the beginning balance column above. This beginning balance adjustment was due to the reevaluation of a general long-term liability of the primary government. See Note 2.

B. General Obligation Bonds

The State issues general obligation bonds to provide funds for acquisition, construction, and renovation of major capital facilities and for highway construction. In addition, general obligation bonds have been issued to refund general obligation bonds, revenue bonds, and capitalized leases. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues. As of June 30, 2005, the State had $19.9 million and $32.4 million of authorized but unissued general obligation building and highway bond authorizations remaining, respectively.

During fiscal year 2005, the State issued $140.6 million Series 2004 B general obligation bonds. The proceeds were used to provide funds for certain highway projects and various other construction projects.

General obligation bonds payable consist of the following:

General Obligation Bonds Payable
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2005
1997 A–E Highway/Capital Facility Issue	07/01/97	2001–2007	4.80% to 5.50%	$ 200,000	$ 29,775
1997 F Highway Issue	08/01/97	2001–2007	5.00% to 5.50%	$ 205,000	49,475
1998 A Highway/Capital Facility Issue	07/07/98	2001–2008	5.00%	$ 265,000	69,100
2001 B Highway/Capital Facility Issue	07/02/01	2004–2009	4.50%	$ 348,000	176,575
2002 A Highway/Capital Facility Issue	06/27/02	2003–2011	3.00% to 5.25%	$ 281,200	167,990
2002 B Refunding Issue	07/31/02	2004–2012	3.00% to 5.38%	$ 253,100	251,065
2003 A Highway/Capital Facility Issue	06/26/03	2005–2013	2.00% to 5.00%	$ 407,405	315,120
2004 A Refunding Issue	03/02/04	2010–2016	4.00% to 5.00%	$ 314,775	314,775
2004 B Highway/Capital Facility Issue	07/01/04	2005-2019	4.75% to 5.00%	$ 140,635	140,635
Total General Obligation Bonds Outstanding					1,514,510
Plus Unamortized Bond Premium					96,699
Less Deferred Amount on Refunding					(23,405)
Total General Obligation Bonds Payable					$ 1,587,804

General Obligation Bond Issues
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal: 1997 A–E Highway/ Capital Facility	1997 F Highway Bonds	1998 A Highway/ Capital Facility	2001 B Highway/ Capital Facility	2002A Highway/ Capital Facility	2002 B Refunding Bonds	2003 A Highway/ Capital Facility
2006	$ 9,350	$ 15,625	$ 15,850	$ 34,900	$ 45,740	$ 205	$ 1,095
2007	9,925	16,475	16,775	33,250	48,075	160	7,775
2008	10,500	17,375	17,750	34,650	50,575	120	12,825
2009	—	—	18,725	36,125	5,525	29,455	59,300
2010	—	—	—	37,650	5,750	50,835	61,125
2011–2015	—	—	—	—	12,325	170,290	173,000
2016–2020	—	—	—	—	—	—	—
Total	$ 29,775	$ 49,475	$ 69,100	$ 176,575	$ 167,990	$ 251,065	$ 315,120

Continues Below

Fiscal Year	Principal: 2004 A Refunding Bonds	2004 B Highway/ Capital Facility	Total Principal Required	Total Interest Required	Total Amount Required
2006	$ —	$ 14,355	$ 137,120	$ 67,571	$ 204,691
2007	—	7,785	140,220	60,597	200,817
2008	—	6,865	150,660	53,100	203,760
2009	—	9,970	159,100	45,845	204,945
2010	—	11,180	166,540	37,897	204,437
2011–2015	183,460	67,630	606,705	86,158	692,863
2016–2020	131,315	22,850	154,165	5,268	159,433
Total	$ 314,775	$ 140,635	$ 1,514,510	$ 356,436	$ 1,870,946

C. **Revenue Bonds**

Revenue bonds payable consist of those issued by the Utah State Building Ownership Authority, the Utah State Board of Regents Student Loan Purchase Program, the Utah Housing Corporation, and the various colleges and universities. These bonds are not considered general obligations of the State.

Governmental Activities

The Utah State Building Ownership Authority (SBOA) has issued bonds for the purchase and construction of facilities to be leased to state agencies. The bonds are secured by the facilities and repayment is made from lease income. The outstanding bonds payable at June 30, 2005, are reported as a long-term liability of the governmental activities, except for $30.132 million and $1.089 million which are reported in the Alcoholic Beverage Control Fund, and the Utah Correctional Industries Fund (nonmajor enterprise funds), respectively. These portions are reported as liabilities of the business-type activities on the government-wide statement of net assets.

During fiscal year 2005, the average interest rate for the SBOA Series 2001 C variable rate demand lease revenue bonds was 1.84 percent, there is no stated minimum rate, but the maximum rate is 12 percent. The rate on the bond is reset weekly by the remarketing agent and fluctuates with the general changes in interest rates and the demand for these particular securities. In the applicable debt service requirements to maturity schedule, the interest rate used to project debt service requirements was 2.4 percent, which was the rate in effect at yearend.

Business-type Activities

The Utah State Board of Regents Student Loan Purchase Program bonds were issued to provide funds for student loans and are secured by all assets of the Board of Regents Revenue Bond Funds and by the revenues and receipts derived from such assets. The Board of Regents has also issued a revenue bond for an office facility secured by funds within the Board of Regents budget that would otherwise be expended for rent.

The Student Assistance Programs have $391.635 million of bonds bearing interest at an adjustable rate, which is determined weekly by a remarketing agent. The Programs also have adjustable rate bonds that are set by an auction procedure every 28 days in the amount of $312.100 million and $780.550 million of bonds that are auctioned every 35 days.

Discrete Component Units

The Utah Housing Corporation bonds were issued to provide sources of capital for making housing loans to persons of low or moderate income. The bonds are secured by mortgages, and repayments are made from the mortgage payments.

The colleges and universities issue bonds for various purposes, including student housing, special events centers, and student union centers. The bonds are secured by the related assets, student building fees, and other income of certain college activities.

Revenue bonds payable consist of the following:

Revenue Bonds Payable – Component Units
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2005
Utah Housing Corporation Issues................	1985–2005	2005–2047	1.50% to 10.30%	$ 2,430,667	$ 1,342,088
Colleges and Universities Revenue Bonds	1987–2005	2005–2035	variable and 1.90% to 8.49%	$ 544,655	402,656
Total Revenue Bonds Outstanding					1,744,744
Colleges and Universities Less Unamortized Bond Discount...........					(764)
Total Revenue Bonds Payable					$ 1,743,980

Revenue Bonds Payable – Primary Government
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2005
Governmental Activities					
SBOA Lease Revenue Bonds:					
Series 1992 A	07/15/92	1993–2011	5.30% to 5.75%	$ 26,200	$ 12,945
Series 1992 B	07/15/92	1994–2011	4.00% to 6.00%	$ 1,380	705
Series 1993 A	12/01/93	1995–2013	4.50% to 5.25%	$ 6,230	3,320
Series 1995 A	07/01/95	1996–2007	5.00% to 5.75%	$ 92,260	8,025
Series 1996 A	07/01/96	1997–2007	5.50% to 6.00%	$ 42,895	3,755
Series 1996 B	11/01/96	1999–2007	5.00%	$ 16,875	2,245
Series 1998 A	07/01/98	1999–2008	3.75% to 5.00%	$ 24,885	2,120
Series 1998 C	08/15/98	2000–2019	3.80% to 5.50%	$ 101,557	101,272
Series 1999 A	08/01/99	2001–2009	5.25%	$ 6,960	1,080
Series 2001 A	11/21/01	2005–2021	4.00% to 5.00%	$ 69,850	67,850
Series 2001 B	11/21/01	2002–2024	3.00% to 5.75%	$ 14,240	13,730
Series 2001 C	11/21/01	2005–2022	variable	$ 30,300	30,300
Series 2003	12/30/03	2005–2025	2.00% to 5.00%	$ 20,820	20,775
Series 2004 A	10/26/04	2005-2027	3.00% to 5.25%	$ 32,458	32,076
Series 2004 B	10/26/04	2005-2013	3.00% to 5.00%	$ 8,920	8,700
Total Lease Revenue Bonds Outstanding					308,898
Plus Unamortized Bond Premium					4,696
Less Deferred Amount on Refunding					(1,956)
Total Lease Revenue Bonds Payable					$ 311,638
Business-type Activities					
Student Assistance Programs:					
Series 1988 and 1993 Board of Regents Student Loan Indentures	1988–2005	1998–2044	Variable and 4.45% to 6.00%	$1,547,375	$ 1,534,050
Office Facility Bond Fund	2002, 2004	2003–2024	3.00% to 5.13%	$ 11,780	10,780
Total Revenue Bonds Outstanding					1,544,830
Plus Unamortized Bond Premium					48
Total Revenue Bonds Payable					$ 1,544,878
SBOA Lease Revenue Bonds:					
Series 1995A	07/01/95	1996–2007	5.00% to 5.70%	$ 740	$ 75
Series 1996 A	07/01/96	1997–2007	5.50% to 6.00%	$ 1,830	160
Series 1997 A	12/01/97	1999–2008	4.60% to 4.70%	$ 4,150	565
Series 1998 A	07/01/98	1999–2008	4.40% to 5.00%	$ 825	95
Series 1998 C	08/15/98	2000–2019	3.80% to 5.50%	$ 3,543	3,533
Series 1999 A	08/01/99	2001–2009	5.25%	$ 2,495	415
Series 2001 B	11/21/01	2004–2023	3.25% to 5.25%	$ 11,540	10,760
Series 2003	12/30/03	2005–2025	2.00% to 5.00%	$ 1,905	1,835
Series 2004 A	10/26/04	2005-2025	3.00% to 5.25%	$ 13,347	13,234
Total Lease Revenue Bonds Outstanding					30,672
Plus Unamortized Bond Premium					1,013
Less Deferred Amount on Refunding					(464)
Total Lease Revenue Bonds Payable					$ 31,221
Total Lease Revenue/ Revenue Bonds Payable					$ 1,887,737

Revenue Bond Issues – Primary Government
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Principal

Fiscal Year	Utah State Student Assistance Programs	1992 A Utah State Building Ownership Authority	1992 B Utah State Building Ownership Authority	1993 A Utah State Building Ownership Authority	1995 A Utah State Building Ownership Authority	1996 A Utah State Building Ownership Authority	1996 B Utah State Building Ownership Authority	1997 A Utah State Building Ownership Authority
2006	$ 144,920	$ 1,545	$ 85	$ 345	$ 3,945	$ 1,905	$ 1,095	$ 180
2007	11,330	1,640	90	360	4,155	2,010	1,150	190
2008	61,245	1,735	95	380	—	—	—	195
2009	5,355	1,835	100	400	—	—	—	—
2010	76,610	1,945	105	425	—	—	—	—
2011–2015.....	2,795	4,245	230	1,410	—	—	—	—
2016–2020	3,530	—	—	—	—	—	—	—
2021–2025	57,710	—	—	—	—	—	—	—
2026–2030	80,000	—	—	—	—	—	—	—
2031–2035	329,555	—	—	—	—	—	—	—
2036–2040	536,680	—	—	—	—	—	—	—
2041–2045	235,100	—	—	—	—	—	—	—
Total	$1,544,830	$ 12,945	$ 705	$ 3,320	$ 8,100	$ 3,915	$ 2,245	$ 565

Continues Below

Principal

Fiscal Year	1998 A Utah State Building Ownership Authority	1998 C Utah State Building Ownership Authority	1999 A Utah State Building Ownership Authority	2001 A Utah State Building Ownership Authority	2001 B Utah State Building Ownership Authority	2001 C Utah State Building Ownership Authority	2003 Utah State Building Ownership Authority	2004 A Utah State Building Ownership Authority
2006	$ 705	$ 1,120	$ 345	$ 3,175	$ 895	$ —	$ 1,125	$ 335
2007	735	1,170	365	3,125	935	1,000	1,180	865
2008	775	7,715	380	3,250	965	1,400	1,210	895
2009	—	8,130	405	3,375	1,005	1,500	1,240	1,930
2010	—	8,575	—	3,500	1,055	1,600	1,275	2,405
2011–2015.....	—	47,100	—	20,000	5,905	9,000	5,850	14,040
2016–2020	—	30,995	—	25,525	7,370	11,000	4,905	13,675
2021–2025	—	—	—	5,900	6,360	4,800	5,825	9,205
2026–2030	—	—	—	—	—	—	—	1,960
2031–2035	—	—	—	—	—	—	—	—
2036–2040	—	—	—	—	—	—	—	—
2041–2045	—	—	—	—	—	—	—	—
Total	$ 2,215	$ 104,805	$ 1,495	$ 67,850	$ 24,490	$ 30,300	$ 22,610	$ 45,310

Continues Below

Revenue Bond Issues – Primary Government (continued)
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal: 2004 B Utah State Building Ownership Authority	Total Principal Required	Total Interest Required	Total Amount Required
2006	$ 85	$ 161,805	$ 61,635	$ 223,440
2007	90	30,390	59,050	89,440
2008	1,295	81,535	57,561	139,096
2009	1,340	26,615	54,842	81,457
2010	1,380	98,875	53,075	151,950
2011–2015	4,510	115,085	239,263	354,348
2016–2020	—	97,000	210,112	307,112
2021–2025	—	89,800	191,734	281,534
2026–2030	—	81,960	167,766	249,726
2031–2035	—	329,555	142,942	472,497
2036–2040	—	536,680	82,560	619,240
2041–2045	—	235,100	13,405	248,505
Total	$ 8,700	$ 1,884,400	$ 1,333,945	$ 3,218,345

Revenue Bond Issues – Component Units
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal: Utah Housing Corporation	Principal: University of Utah	Principal: Utah State University	Principal: Nonmajor Component Units	Total Principal Required	Interest Required	Total Amount Required
2006	$ 120,628	$ 8,283	$ 3,329	$ 5,348	$ 137,588	$ 77,033	$ 214,621
2007	34,883	10,696	3,025	4,805	53,409	76,884	130,293
2008	40,475	10,808	3,178	5,048	59,509	74,510	134,019
2009	40,641	11,669	3,319	5,276	60,905	71,942	132,847
2010	40,911	12,420	3,462	5,504	62,297	69,260	131,557
2011–2015	174,193	60,486	19,917	21,291	275,887	305,238	581,125
2016–2020	144,088	52,540	16,383	14,772	227,783	244,453	472,236
2021–2025	187,847	40,607	12,191	7,538	248,183	184,706	432,889
2026–2030	243,649	30,591	11,905	3,380	289,525	117,475	407,000
2031–2035	226,706	—	14,100	785	241,591	46,771	288,362
2036–2040	64,336	—	—	—	64,336	11,018	75,354
2041–2045	22,169	—	—	—	22,169	3,578	25,747
2046–2050	1,562	—	—	—	1,562	59	1,621
Total	$ 1,342,088	$ 238,100	$ 90,809	$ 73,747	$ 1,744,744	$ 1,282,927	$ 3,027,671

D. **Conduit Debt Obligations**

Of the Utah Housing Corporation (component unit) bonds outstanding, $255.028 million were issued as multi-family purchase bonds. Of those bonds, $247.633 million are conduit debt obligations issued on behalf of third parties. The Corporation is not obligated in any manner for repayment of the conduit debt. However, in accordance with the Corporation's accounting policies, the conduit debt is reported in the Corporation's financial statements.

In 1985, the State Board of Regents authorized the University of Utah (component unit) to issue Variable Rate Demand Industrial Development Bonds for the University Park Hotel, a limited partnership separate from the University. The bonds are payable solely from revenues of the University Park Hotel. The bonds do not constitute a debt or pledge of the faith and credit of the University of Utah or the State and, accordingly, have not been reported in the accompanying financial statements. At June 30, 2005, $6.785 million of Variable Rate Demand Industrial Development Bonds are outstanding.

E. **Demand Bonds**

- The Utah State Building Ownership Authority (SBOA) issued $30.3 million Series 2001 C variable rate demand lease revenue bonds. The bonds are subject to purchase upon not less than seven days notice of tender from the bondholder or in case the bonds cannot be remarketed. The remarketing agent is paid a fee of 5 basis points of the bonds outstanding on a quarterly basis.

  In the case that the bonds cannot be remarketed, the SBOA has an irrevocable direct-pay letter of credit with Landesbank Hessen-Thüringen Girozentrale (Helaba) acting through its New York Branch in the amount of $30.828 million, which is an amount sufficient to pay principal and 53 days of accrued interest at 12 percent. In consideration for the letter of credit, Helaba receives a fee of 18.5 basis points paid on a quarterly basis. The letter of credit expires on December 31, 2015, and as of June 30, 2005, the SBOA has not had to draw any funds for bondholder tenders or a failed remarketing.

  The letter of credit also has a take out agreement for the bonds that allows the SBOA to pay the bonds that Helaba holds (bank bonds) over a five-year period in approximately equal payments. The rate in effect for bank bonds for the first 90 days is the base rate, which is the higher of the Federal Funds rate plus 50 basis points or the Prime Rate, up to a maximum of 12 percent per annum. The interest rate for bank bonds held longer than 90 days is the base rate plus 2 percent. If the take out agreement were in effect and assuming all the bonds were not remarketed, the SBOA would pay debt service of $8.406 million a year for five years, based on the maximum rate.

- The Student Loan Purchase Program had $391.635 million of demand bonds outstanding at June 30, 2005, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on seven days notice and delivery to the Board's remarketing agent.

  In the event bonds cannot be remarketed, the Board has standby bond purchase agreements and a letter of credit agreement sufficient to pay the purchase price of bonds delivered to it. The Board pays quarterly fees to maintain the standby bond purchase agreements and letter of credit on the demand bonds.

  An unused irrevocable direct-pay letter of credit expiring November 15, 2011, in the amount of $37.462 million supports the Series 1993 A bonds of $35 million. Standby bond purchase agreements of $110.677 million expiring November 15, 2005 support the Series 1988 C and 1995 L bonds of $104.5 million, $108.4 million expiring April 29, 2025, support the Series 1996 Q and 1997 R bonds of $101.055 million and 158.753 million expiring February 11, 2024 to support the 2005 Series W and X bonds of $151.08 million. As of June 30, 2005, the Board had not drawn any funds under the standby bond purchase agreements or the letter of credit.

- The Utah Housing Corporation (component unit) had $542.810 million of bonds outstanding at June 30, 2005, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on delivery to the remarketing agent.

  In the case that the variable rate bonds cannot be remarketed, the Corporation has entered into various irrevocable Standby Bond Purchase Agreements (Liquidity Facility) with four different banks totaling $800 million. These Agreements provide that these institutions will provide funds to purchase the variable rate bonds that have been tendered and not remarketed. These liquidity providers receive a fee ranging from 12.5 to 17.5 basis points of the outstanding amount of the variable rate bonds paid on a quarterly basis. The Corporation has not drawn on any of the facilities to date.

- The University of Utah (component unit) Series 1997 A bonds in the amount of $14 million currently bear interest at a weekly rate in accordance with bond provisions. When a weekly rate is in effect, the Series 1997 A bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's tender agent. The interest requirement for the Series 1997 A Bonds is calculated using an interest rate of 2.40 percent, which is the rate in effect of June 30, 2005.

  In the event the bonds cannot be remarketed, the tender agent is required to draw on an irrevocable standby bond purchase agreement to pay the purchase price of the bonds delivered to it. The standby bond purchase agreement is with J.P. Morgan Chase Bank and is valid through July 30, 2010. As of June 30, 2005, the University had not drawn any funds under the standby bond purchase agreement.

F. **Defeased Bonds and Bond Refunding**

On October 26, 2004, the Utah State Building Ownership Authority issued $45.805 million of Lease Revenue and Refunding Bonds Series 2004 A and used $19.095 million of the proceeds to advance refund $2.615 million, $9.25 million, and $6.7 million of Series 1997 A, 1998 A, and 1999 A Lease Revenue Bonds, respectively. The principal amount of the refunding bonds and $1.35 million of original issue premium were paid to an escrow agent to be placed in an irrevocable trust account to provide for the debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets.

The advance refunding transaction resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1.88 million. This difference, reported in the Statement of Net Assets as a deduction from bonds payable, is being charged to operations through fiscal year 2021 using the bonds outstanding method, which approximates the effective interest method. The refunding reduced the State's aggregate debt service payments by $400 thousand over 16 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $300 thousand.

On October 26, 2004, the Utah State Building Ownership Authority issued $8.92 million of Lease Revenue Refunding Bonds Series 2004 B to advance refund $8.27 million of Series 1996 B Lease Revenue Bonds. The principal amount of the refunding bonds and $64 thousand of original issue premium were paid to an escrow agent to be placed in an irrevocable trust account to provide for the debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets.

The advance refunding transaction resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $714 thousand. This difference, reported in the Statement of Net Assets as a deduction from bonds payable, is being charged to operations through fiscal year 2013 using the bonds outstanding method, which approximates the effective interest method. The refunding reduced the State's aggregate debt service payments by $362 thousand over 8 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $318 thousand.

In prior years, the State defeased certain general obligation and revenue bonds by placing the proceeds of new bonds and other monies available for debt service in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets. At June 30, 2005, the total amount outstanding of defeased general obligation bonds was $571.91 million. At June 30, 2005, the total amount outstanding of defeased revenue bonds, including the bonds advanced refunded in fiscal year 2005 was $116.795 million.

In prior years, component units defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the component unit column on the Statement of Net Assets. At June 30, 2005, $66.240 million of college and university bonds outstanding are considered defeased.

G. Contracts Payable

Component unit capital leases/contracts payable include $5.576 million in life annuity contracts.

H. Notes Payable

The notes payable balance consists of notes issued by component units for the purchase of buildings and equipment. The notes bear various interest rates and will be repaid over the next 25 years. They are secured by the related assets.

Notes Payable Debt Service Requirements to Maturity
Component Units
For Fiscal Years Ending June 30
(Expressed in Thousands)

Fiscal Year	Principal: Utah Housing Corporation	University of Utah	Utah State University	Nonmajor Component Units	Total Principal Required	Interest Required	Total Amount Required
2006	$ 20	$ 629	$ 1,240	$ 1,022	$ 2,911	$ 2,217	$ 5,128
2007	22	578	1,239	5,076	6,915	2,092	9,007
2008	24	614	1,289	507	2,434	1,813	4,247
2009	27	652	1,312	470	2,461	1,688	4,149
2010	30	699	1,295	841	2,865	1,552	4,417
2011–2015	200	4,325	4,931	970	10,426	5,829	16,255
2016–2020	4	5,681	4,278	746	10,709	2,758	13,467
2021–2025	—	395	3,946	524	4,865	463	5,328
2026–2030	—	—	—	270	270	28	298
Total	$ 327	$ 13,573	$ 19,530	$ 10,426	$ 43,856	$ 18,440	$ 62,296

I. **Debt Service Requirements for Derivatives**

Swap Payments and Associated Debt — As explained in Note 3.D., Utah Housing Corporation (major component unit) had entered into pay-fixed, receive-variable interest rate swaps as of June 30, 2005. Using rates as of June 30, 2005, debt service requirements of the Corporation's outstanding variable-rate debt and net swap payments are summarized below (in thousands). As rates vary, variable-rate bond interest payments and net swap payments will vary. The principal, interest and net swap interest are included in the Component Unit debt service schedule presented on page 90 for Utah Housing Corporation.

Utah Housing Corporation
Swap Payments and Associated Debt
For Fiscal Years Ending June 30
(Expressed in Thousands)

Fiscal Year	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate Swaps, Net	Total
2006	$ 17,735	$ 13,972	$ 9,880	$ 41,587
2007	4,805	13,449	11,028	29,282
2008	4,555	13,303	10,926	28,784
2009	4,340	13,165	10,830	28,335
2010	4,280	13,034	10,738	28,052
2011–2015	18,185	63,521	52,413	134,119
2016–2020	44,300	60,116	49,122	153,538
2021–2025	84,275	52,335	41,944	178,554
2026–2030	159,675	38,181	28,927	226,783
2031–2035	181,260	14,380	8,773	204,413
2036–2040	17,985	519	107	18,611
Total	$ 541,395	$ 295,975	$ 234,688	$ 1,072,058

NOTE 11. GOVERNMENTAL FUND BALANCES AND NET ASSETS RESTRICTED BY ENABLING LEGISLATION

A. Governmental Fund Balances – Reserved and Designated

The State's reserved fund balances represent: (*1*) **Nonlapsing Appropriations** which include continuing appropriations or nonlapsing funds, encumbrances for construction contracts in the capital projects funds, and limited encumbrances in the general and special revenue funds; or (*2*) **Restricted Purposes** which include fund balances that are legally restricted for other purposes, assets restricted by bond agreements or other external restrictions, and those portions of fund balance that are not available for appropriation or expenditure, such as loans to internal service funds. A summary of the nature and purpose of these reserves by fund type at June 30, 2005, follows:

Reserved Fund Balances
(Expressed in Thousands)

	Nonlapsing Appropriations	Restricted Purposes	Total Reserved
General Fund:			
Legislature	$ 2,930	$ —	$ 2,930
Governor	3,786	1,237	5,023
Elected Officials	1,195	1	1,196
Administrative Services	10,431	6	10,437
Tax Commission	11,909	12,882	24,791
Human Services	5,732	5,707	11,439
Corrections	2,163	29	2,192
Public Safety	29,138	7,231	36,369
Courts	1,216	5,074	6,290
Health	4,328	1,727	6,055
Environmental Quality	783	6,377	7,160
Employment and Family Services	6,914	9,117	16,031
Natural Resources	11,527	18,889	30,416
Community and Economic Development	11,805	2,572	14,377
Business, Labor, and Agriculture	9,102	7,626	16,728
Industrial Assistance Account	—	27,884	27,884
Loans to Internal Service Funds	—	14,893	14,893
Tobacco Settlement Funds	—	6,102	6,102
Oil Overcharge Funds	—	6,777	6,777
Mineral Bonus Account	—	9,289	9,289
Other Purposes	468	5,513	5,981
Total	$ 113,427	$ 148,933	$ 262,360
Uniform School Fund:			
Minimum School Program	$ 30,123	$ —	$ 30,123
State Office of Education	10,102	—	10,102
School Building Program	—	8,541	8,541
School Land Interest	—	14,068	14,068
Total	$ 40,225	$ 22,609	$ 62,834
Transportation Fund:			
Transportation	$ 2,263	$ —	$ 2,263
Public Safety	—	8,723	8,723
Corridor Preservation	—	7,398	7,398
Aeronautical Programs	—	5,038	5,038
Salt Lake County Road Construction	—	23,066	23,066
Total	$ 2,263	$ 44,225	$ 46,488
Trust Lands Fund:			
Funds Held as Permanent Investments	$ —	$ 594,251	$ 594,251
Non-major Governmental Funds:			
Capital Projects	$ 283,718	$ 13,824	$ 297,542
Debt Service	—	6,755	6,755
Tobacco Settlement Funds	—	18,109	18,109
Environmental Reclamation	—	16,224	16,224
Other Purposes	—	5,943	5,943
Total	$ 283,718	$ 60,855	$ 344,573

Designated Fund Balances
(Expressed in Thousands)

	General Fund	Uniform School Fund	Transportation Fund	Centennial Highway Fund	Nonmajor Governmental Funds	Total Governmental Funds
Designated for:						
Budget Reserve (Rainy Day) Account	$ 105,613	$ —	$ —	$ —	$ —	$ 105,613
Education Budget Reserve Account	—	40,542	—	—	—	40,542
Post-employment and Other Liabilities	179,517	179,018	45,560	635	—	404,730
Fiscal Year 2006 Appropriations:						
Line Item Appropriations	74,599	43,054	—	—	—	117,653
Industrial Assistance Account	3,263	—	—	—	—	3,263
Tourism Marketing Account	4,000	—	—	—	—	4,000
Capital Projects	—	—	—	—	69	69
Debt Service	—	—	—	—	5,881	5,881
Total	$ 366,992	$ 262,614	$ 45,560	$ 635	$ 5,950	$ 681,751

B. **Net Assets Restricted by Enabling Legislation**

The State's net assets restricted by enabling legislation represent resources which a party external to a government—such as citizens, public interest groups, or the judiciary—can compel the government to use only for the purpose specified by the legislation.

The government-wide Statement of Net Assets reports $2.45 billion of restricted net assets, of which $13.2 million is restricted by enabling legislation.

NOTE 12. DEFICIT NET ASSETS AND FUND BALANCE

Funds reporting a deficit total net assets position at June 30, 2005, are (in thousands):

Private Purpose Trust Funds:	
Employers' Reinsurance	$ (202,713)
Petroleum Storage Tank	$ (54,433)

The deficit in the Employers' Reinsurance Trust represents the unfunded portion of the actuarial estimate of claims incurred. The Employers' Reinsurance Trust claims are funded from assessments on workers' compensation insurance. The Utah Labor Commission sets the rate up to the maximum established by the Legislature to keep current revenues at a level sufficient to cover current cash disbursements. State law limits the State's liability to the cash or assets in the Employers' Reinsurance Trust only. State law also limits the Trust's liability to claims resulting from industrial accidents or occupational diseases occurring on or before June 30, 1994. For claims resulting from accidents or diseases on or after July 1, 1994, the employer or its insurance carrier is liable for resulting liabilities.

The Petroleum Storage Tank Trust covers the clean-up costs of leaks from state-approved underground petroleum storage tanks. The assets in the fund are more than adequate to pay current claims. Unfunded future claims will be funded by future revenues.

Funds/activities reporting a deficit position in the unrestricted portion of their net assets at June 30, 2005, are (in thousands):

Internal Service Funds:	
General Services	$ (1,548)
Fleet Operations	$ (23,494)

The Internal Service Funds deficits are mainly due to the significant investment in capital assets required for these operations. The deficits will be covered by future charges for services. Management may also seek rate increases to help reduce these deficits.

In addition, the Capital Projects – General Government Fund (nonmajor governmental fund) reported a $71.196 million deficit unreserved undesignated fund balance as a result of outstanding encumbrances on various capital projects. Appropriations and bond proceeds available in the next fiscal year will fund this deficit.

NOTE 13. INTERFUND TRANSFERS

Transfers between funds occur when one fund collects revenue and transfers the assets to another fund for expenditure or when one fund provides working capital to another fund. All transfers must be legally authorized by the Legislature through statute or an *Appropriation Act.* Interfund transfers for the fiscal year ended June 30, 2005, are as follows (in thousands):

	Transfers In: Governmental Funds					
Transfers Out:	**General Fund**	**Uniform School Fund**	**Trans-portation Fund**	**Centennial Highway Fund**	**Trust Lands Fund**	**Nonmajor Governmental Funds**
General Fund	$ —	$ 2,980	$ 36,244	$ 59,595	$ 22	$ 150,515
Uniform School Fund	200,951	—	—	—	—	87,921
Transportation Fund	32,276	—	—	74,750	—	2,190
Centennial Highway Fund	—	—	12,162	—	—	125,689
Nonmajor Governmental Funds	8,359	—	—	—	—	6,608
Unemployment Compensation	2,160	—	—	—	—	—
Water Loan Programs	2,950	—	—	—	—	—
Nonmajor Enterprise Funds	42,799	—	—	—	—	—
Internal Service Funds	4,818	—	—	—	—	—
Total Transfers In	$ 294,313	$ 2,980	$ 48,406	$ 134,345	$ 22	$ 372,923

Continues Below

	Enterprise Funds			
Transfers Out:	**Water Loan Programs**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total Transfers Out**
General Fund	$ 1,582	$ 36,937	$ 611	$ 288,486
Uniform School Fund	—	—	—	288,872
Transportation Fund	—	—	—	109,216
Centennial Highway Fund	—	—	—	137,851
Nonmajor Governmental Funds	—	—	47	15,014
Unemployment Compensation	—	—	—	2,160
Water Loan Programs	—	—	—	2,950
Nonmajor Enterprise Funds	—	—	—	42,799
Internal Service Funds	—	—	—	4,818
Total Transfers In	$ 1,582	$ 36,937	$ 658	$ 892,166

Transfers from major governmental funds to nonmajor governmental funds are primarily for capital facility construction and debt service expenditures. Transfers from the General Fund to nonmajor enterprise funds are primarily mineral lease royalties used to make loans and grants to local governments through the Community Impact Loan Fund. Transfers from nonmajor enterprise funds to the General Fund are mostly liquor profits from the Alcoholic Beverage Control Fund that are required by statute to be deposited in the General Fund. All other transfers are made to finance various programs as authorized by the Legislature.

During fiscal year 2005, the legislature authorized transfers of $4.818 million from the Internal Service Funds to the General Fund to subsidize general fund revenues. In addition, the Legislature authorized payments of $640.401 million to the Colleges and Universities. Payments to Colleges and Universities are reported as expenditures in both the General Fund fund statements and the Governmental Activities column of the Statement of Activities. They are also reported as revenues in the Component Units column of the Statement of Activities.

NOTE 14. LITIGATION, CONTINGENCIES, AND COMMITMENTS

A. Litigation

The State is involved in various legal actions arising in the ordinary course of business. The State is vigorously contesting all of these matters, but as of this date it is not possible to determine the outcome of these proceedings. In the opinion of the Attorney General and management, the ultimate disposition of these matters will not have a material adverse effect on the State's financial position.

- Members of the Navajo Nation allege the State of Utah has mismanaged Navajo Nation Trust Fund monies. The plaintiffs are seeking an accounting of the legitimacy of the fund's receipts and disbursements, and damages of $142 million including interest and attorneys' fees.

- There is currently a suit pending seeking a refund of taxes paid. Damages in this case have not yet been specified. In the event of an adverse ruling, the State estimates the damages sought could be in the range of $8 to $20 million.

- In addition to the items above, the State is contesting other legal actions totaling over $25 million plus attorneys' fees and interest in some cases.

B. Contingencies

- Financial and compliance audits (Single Audit) of federal grants, contracts, and agreements were conducted under the provisions of the Federal Office of Management and Budget's circulars. As a result of the audits, identified questioned costs are immaterial. Other audit findings on noncompliance cannot be estimated as to the potential liability. The Single Audit for the fiscal year ended June 30, 2005, is in process and management expects proposed disallowances to be immaterial.

- Management's estimated liability for the Petroleum Storage Tank Trust (private purpose trust fund) is highly sensitive to change based on the short period of historical data and the uncertainties in estimating costs. Since it is not possible to determine the occurrence date of a leak in an underground storage tank, it is not possible to estimate the number or the associated costs of leaks that have not been detected.

- The Utah Department of Transportation (UDOT) plans on seeking reimbursement from the Federal Highway Administration (FHWA) for approximately $20 million per year for fiscal years 2006 through 2007. The State received $43.767 million in fiscal year 2005. The related costs were incurred by the State as a result of the I-15 reconstruction project and were originally paid using state funds. UDOT has not recorded an accounts receivable for these future reimbursement requests because the requests are contingent upon sufficient future federal funds and federal obligation authority becoming available and future approval by the FHWA.

- The State is totally self-insured against liability claims and up to $2.5 million in property claims. According to an actuarial study and other known factors, $44.673 million exists as either incurred but unfiled or unpaid claims. This amount is reported as a liability of the Administrative Services Risk Management Fund (internal service fund).

- The Utah School Bond Guaranty Act (*Utah Code Annotated, 1953,* as amended, Sections 53A–28–101 to 402), which took effect on January 1, 1997, pledges the full faith, credit, and unlimited taxing power of the State to guaranty full and timely payment of the principal and interest on general obligation bonds issued by qualifying local school boards. The primary purpose of the Guaranty Act is to reduce borrowing costs for local school boards by providing credit enhancement for Guarantied Bonds.

  In the event a school board is unable to make the scheduled debt service payments on its Guarantied Bonds, the State is required to make such payments in a timely manner. For this purpose, the State may use any available monies, may use short-term borrowing from the State Permanent School Fund (part of the permanent Trust Lands Fund), or may issue short-term general obligation notes. The local school board remains liable to the State for any such payments on Guarantied Bonds. Reimbursements to the State may be obtained by intercepting payment of state funds intended for the local school board. The State may also compel the local school board to levy a tax sufficient to reimburse the State for any guaranty payments.

  The State Superintendent of Public Instruction is charged with monitoring the financial condition of local school boards and reporting, at least annually, its conclusions to the Governor, the Legislature, and the State Treasurer. The State Superintendent must report immediately any circumstances which suggest a local school board may not be able to pay its debt service obligations when due. The State does not expect that it will be required to advance monies for the payment of debt service on Guarantied Bonds for any significant period of time.

  Local school boards have $1.674 billion principal amount of Guarantied Bonds outstanding at June 30, 2005. The State cannot predict the amount of bonds that may be guarantied in future years, but no limitation is currently imposed by the Guaranty Act.

- The Attorney General of the State sued the tobacco industry for medical costs related to smoking. The State of Utah has signed on to a master settlement agreement along with 45 other states. The major tobacco manufacturers and most of the smaller manufacturers have joined the agreement. The State received $28.353 million from tobacco companies in fiscal year 2005 and expects to receive approximately $24.441 million in fiscal year 2006. Annual payments will be adjusted for factors such as inflation, decreased sales volume, previously settled law suits, disputed payments, and legal fees.

C. Commitments

- At June 30, 2005, the Industrial Assistance Program of the General Fund had grant commitments of $16.196 million, contingent on participating companies meeting certain performance criteria.

- Utah Retirement Systems (pension trust funds) has at its yearend December 31, 2004, committed to fund certain alternative investment partnerships and real estate projects for an amount of $3.373 billion. Funding of $2.303 billion has been provided, leaving an unfunded commitment of $1.07

billion as of December 31, 2004, which will be funded over the next six years.

- As of June 30, 2005, the Utah Housing Corporation (major component unit) has committed to purchase mortgages under the Single-Family Mortgage Purchase Program in the amount of $25.395 million. The Corporation has a revolving credit loan with a community development company in the amount of $2.5 million due February 3, 2006. At June 30, 2005, the outstanding balance was $817 thousand and bears interest at the LIBOR Rate plus 2.5 percent. Interest payments are due monthly.

- At June 30, 2005, the enterprise funds had loan commitments of approximately $136.680 million and grant commitments of approximately $30.419 million.

- At June 30, 2005, the Utah Higher Education Assistance Authority Student Loan Guarantee Program (Student Assistance Programs, major enterprise fund) had guaranteed student loans outstanding with an original principal amount of approximately $2.098 billion. Also, at June 30, 2005, the Student Assistance Programs had commitments to purchase approximately $422 million in student loans and provide approximately $12.561 million in reductions to borrower loan balances.

- At June 30, 2005, the Department of Transportation had construction and other contract commitments of $631.901 million, of which $418.421 million is for Centennial Highway Fund (special revenue fund) projects and $213.480 million is for Transportation Fund (special revenue fund) projects. These commitments will be funded with bonded debt and future appropriations.

NOTE 15. JOINT VENTURE

The Utah Communications Agency Network (UCAN) was created by the State Legislature in 1997 as an independent agency. Its purpose is to provide public safety communications services and facilities on a regional or statewide basis.

UCAN's governing board consists of ten representatives elected by the board, and five state representatives of which four are appointed by the Governor. The State has contracted to purchase communication services from UCAN to meet the needs of law enforcement officers in the Departments of Public Safety, Corrections, Natural Resources, and other smaller state agencies.

In fiscal year 1998 the State provided startup capital of $185 thousand. UCAN receives federal funds as a subrecipient of grants awarded to the Department of Public Safety. UCAN also may receive legal counsel from the Attorney General's Office at no cost. Contracts with state agencies are estimated to provide over 30 percent of UCAN's operating revenues.

UCAN had $10.86 million of revenue bonds outstanding at June 30, 2005. UCAN's debt is not a legal obligation of the State; however, if UCAN cannot meet its debt service requirements, state law allows the Governor to request an appropriation to restore the debt service reserve fund to its required level or to meet any principal or interest payment deficiency. The Legislature is not required to make any such appropriation, but if made, UCAN must repay the State within 18 months. To date, UCAN has never requested any such funding from the State and has had sufficient resources to cover its debt service and debt service reserve requirements.

The Utah State Auditor's Office audits UCAN's financial statements. Copies of those statements can be obtained from UCAN's administrative office or from the Utah State Auditor's Office.

NOTE 16. PENSION PLANS

Eligible employees of the State are covered by one of the following retirement plans:

A. Utah Retirement Systems

Utah Retirement Systems (URS) was established by Section 49 of *Utah Code Annotated, 1953*, as amended. URS administers the pension systems and plans under the direction of the URS Board, which consists of the State Treasurer and six members appointed by the Governor. URS has a separate accounting system and prepares a separately issued financial report covering all retirement systems and deferred compensation plans it administers. URS maintains records and prepares separately issued financial statements using fund accounting principles and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Revenues, including contributions, are recorded in the accounting period in which they are earned and become measurable. URS reports on a calendar yearend. The December 31, 2004, financial report has been included in this Comprehensive Annual Financial Report as a pension trust fund for the Public Employees Retirement System (PERS) within the fiduciary funds. Copies of the separately issued financial report that include financial statements and required supplemental information may be obtained by writing to Utah Retirement Systems, 560 East 200 South, Salt Lake City, Utah 84102, or by calling 1-800-365-8772.

The URS operations are comprised of the following groups of systems and plans covering substantially all employees of the State, public education, and other political subdivisions of the State:

- The Public Employees Contributory Retirement System (Contributory System); the Public Employees Noncontributory Retirement System (Noncontributory System); and the Firefighters Retirement System, which are defined-benefit multiple-employer, cost-sharing, public employee retirement systems;

- The Public Safety Retirement System, which is a defined-benefit mixed agent and cost-sharing, multiple-employer retirement system;

- The Judges Retirement System and the Governors and Legislative Pension Plan, which are single-employer service employee retirement systems; and the 401(k) and 457 Plans, which are defined contribution plans.

Retirement benefits are specified by Section 49 of *Utah Code Annotated, 1953*, as amended. The retirement systems are defined-benefit plans in which the benefits are based on age and/or years of service and highest average salary. Various plan options within the systems may be selected by retiring members. Some of the options require actuarial reductions based on attained age, age of spouse, and similar actuarial factors. A brief summary of eligibility for and benefits of the systems is provided in the following table:

Summary of Eligibility and Benefits

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System
Highest Average Salary	Highest 5 Years	Highest 3 Years	Highest 3 Years		Highest 2 Years
Years of Service Required and/or Age Eligible for Benefit	30 years any age *20 years age 60 *10 years age 62 4 years age 65	30 years any age *25 years any age *20 years age 60 *10 years age 62 4 years age 65	20 years any age 10 years age 60 4 years age 65		25 years any age *20 years age 55 10 years age 62 6 years age 70
Benefit Percent per Year of Service	1.25% to June 1975 2.00% July 1975 to present	2.00% per year	2.50% per year up to 20 years 2.00% per year over 20 years Benefit cannot exceed 70% of final average salary		5.00% first 10 years 2.25% second 10 years 1.00% over 20 years Benefit cannot exceed 75% of final average salary

*With actuarial reductions

Former governors at age 65 receive $1,120 per month per term. Legislators receive a benefit actuarially reduced at age 62 with ten or more years of service, or an unreduced benefit at age 65 with four or more years of service at the rate of $24.80 per month per year of service. Both the governors' and legislators' benefits are adjusted based on the Consumer Price Index (CPI), limited to 4 percent of the base benefit per year.

Death benefits for active and retired employees are in accordance with retirement statutes. Upon termination of employment, members of the systems may leave their retirement account intact for future benefits based on vesting qualification, or withdraw the accumulated funds in their individual member account and forfeit service credits and rights to future benefits upon which the contributions were based.

As a condition of participation in the systems, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by the Board. Employee contributions may be paid in part or in whole by the employer. Contributions in some systems are also augmented by fees or insurance premium taxes. Below is a summary of system participants.

Participants
December 31, 2004

	Contributory System	Non-contributory System	Public Safety System	Fire-fighters System	Judges System	Governors and Legislative Pension Plan
Number of participating:						
Employers	161	391	119	44	1	1
Members:						
Active	3,393	85,046	7,173	1591	106	95
Terminated vested.............	1,430	23,823	1,192	77	7	87
Retirees and beneficiaries:						
Service benefits	6,514	23,774	3,031	875	84	221
Disability benefits	4	—	16	58	—	—

Employer contribution rates consist of (***1***) an amount for normal cost (the estimated amount necessary to finance benefits earned by the members during the current year) and (***2***) an amount for amortization of the unfunded, or excess funded actuarial accrued liability over an open 20 year amortization period. These rates are determined using the entry age actuarial cost method with a supplemental present value and the same actuarial assumptions used to calculate the actuarial accrued liability.

The following table presents the State of Utah's actuarially determined employer contributions required and paid to URS. These amounts are equal to the annual pension costs for each of the stated years and all of these amounts were paid for each year. Accordingly, the net pension obligation (NPO) at the end of each year was zero. For the Governors and Legislative Pension Plan, there has been no annual pension cost, required contributions, or NPO because the plan was overfunded for each of these years.

State of Utah's Employer Contributions
Required and Paid
For Fiscal Years Ended June 30
(Expressed in Thousands)

	Contributory System	Non-contributory System	Public Safety System	Fire-fighters System	Judges System	Total All Systems
Primary Government:						
2005	$ 4,335	$ 80,966	$ 21,112	$ 52	$ 814	$ 107,279
2004	$ 3,894	$ 67,745	$ 19,165	$ 50	$ 782	$ 91,636
2003	$ 3,683	$ 60,033	$ 16,713	$ 47	$ 539	$ 81,015
2002	$ 5,777	$ 93,037	$ 25,921	$ 58	$ 928	$ 125,721
2001	$ 4,902	$ 78,752	$ 19,772	$ 56	$ 1,615	$ 105,097
Component Units:						
Colleges and Universities:						
2005	$ 2,201	$ 35,195	$ 422	$ —	$ —	$ 37,818
2004	$ 1,996	$ 30,434	$ 411	$ —	$ —	$ 32,841
2003	$ 1,840	$ 29,409	$ 375	$ —	$ —	$ 31,624
2002	$ 1,904	$ 28,028	$ 399	$ —	$ —	$ 30,331
2001	$ 2,398	$ 33,575	$ 442	$ —	$ —	$ 36,415
Other:						
2005	$ 59	$ 2,273	$ —	$ —	$ —	$ 2,332
2004	$ 52	$ 1,913	$ —	$ —	$ —	$ 1,965
2003	$ 44	$ 1,609	$ —	$ —	$ —	$ 1,653
2002	$ 43	$ 258	$ —	$ —	$ —	$ 301
2001	$ 50	$ 352	$ —	$ —	$ —	$ 402
Total Primary Government and Component Units:						
2005	$ 6,595	$ 118,434	$ 21,534	$ 52	$ 814	$ 147,429
2004	$ 5,942	$ 100,092	$ 19,576	$ 50	$ 782	$ 126,442
2003	$ 5,567	$ 91,051	$ 17,088	$ 47	$ 539	$ 114,292
2002	$ 7,724	$ 121,323	$ 26,320	$ 58	$ 928	$ 156,353
2001	$ 7,350	$ 112,679	$ 20,214	$ 56	$ 1,615	$ 141,914

The following schedule summarizes contribution rates in effect at December 31, 2004:

Contribution Rates as a Percent of Covered Payroll

System	Member	Employer	Other
Contributory	6.00%	7.08% – 8.89%	—
Noncontributory	—	11.09% – 13.38%	—
Public Safety:			
Contributory	10.50% – 13.74%	7.70% – 19.96%	—
Noncontributory	—	19.08% – 32.52%	—
Firefighters:			
Group A	8.61%	—	12.16%
Group B	7.83%	—	12.16%
Judges:			
Contributory	2.00%	5.14%	19.69%
Noncontributory	—	7.14%	19.69%
Governors and Legislative	—	—	—

401(k) and 457 Deferred Compensation Plans

The 401(k) Plan and 457 Plan administered by URS, in which the State participates, are deferred compensation plans. These plans are available as supplemental plans to the basic retirement benefits of the retirement systems for employees of employers that have adopted the 401(k) and 457 Plans. Voluntary contributions may be made into the plans subject to plan and Internal Revenue Code limitations. Employer contributions may be made into the plans at rates determined by the employers. There are 344 employers participating in the 401(k) Plan and 153 employers participating in the 457 Plan. There are 125,312 plan participants in the 401(k) Plan and 12,532 participants in the 457 Plan.

After termination of employment, benefits are paid out to individuals in lump sum, or as periodic benefit payments, at the option of the participant based on individual account balances and plan provisions. The 401(k) and 457 Plans account balances are fully vested to the participants at the time of deposit. Investments of the plans are reported at fair value.

Employees of the State are eligible to participate in the deferred compensation 401(k) Plan. The State and participating employers are required to contribute to employees who participate in the noncontributory retirement plan. The State contributes 1.5 percent of eligible employees' salaries which amount vests immediately. The amounts contributed to the 401(k) Plan during the year ended June 30, 2005, by employees and employers are as follows: for Primary Government, $32.269 million and $10.939 million; for Component Units – Colleges and Universities, $3.842 million and $4.171 million; for Component Units – Other, $884 thousand and $542 thousand; and the combined total for all is $36.995 million and $15.652 million, respectively.

Pension Receivables and Investments

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that value. Corporate debt securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on an amortized cost basis, which approximates market or fair value. The fair value of real estate investments has been estimated based on independent appraisals. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, have determined the fair value for the individual investments. Approximately 13 percent of the net assets held in trust for the pension benefits are invested in debt securities of the U.S. Government and its instrumentalities. Of the 13 percent, approximately 6 percent are U.S. Government debt securities and 7 percent are debt securities of the U.S. Government instrumentalities. The systems and plans have no investments of any commercial or industrial organization whose market value equals 5 percent or more of the net assets available for benefits. The principal components of the receivables and investment categories are presented below.

Pension Receivables and Investments
(Expressed in Thousands)

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System	Governors and Legislative Pension Plan	401(k) Plan	457 Plan	Total December 31, 2004
Receivables:									
Member Contributions	$ 339	$ —	$ 103	$ 147	$ —	$ —	$ —	$ —	$ 589
Employer Contributions	479	23,672	1,939	—	31	—	—	—	26,121
Court Fees and Fire Insurance Premium	—	—	—	2,306	173	—	—	—	2,479
Investments	20,157	271,204	33,830	13,505	2,237	235	37,329	1,661	380,158
Total Receivables	$ 20,975	$ 294,876	$ 35,872	$ 15,958	$ 2,441	$ 235	$ 37,329	$ 1,661	$ 409,347
Investments:									
Debt Securities	$ 221,819	$ 2,984,445	$ 372,279	$ 148,614	$ 24,618	$ 2,587	$ 641,828	$ 68,608	$ 4,464,798
Equity Investments	584,665	7,866,305	981,237	391,715	64,888	6,820	1,179,454	125,555	11,200,639
Venture Capital	32,645	439,223	54,790	21,872	3,623	381	—	—	552,534
Real Estate	98,858	1,330,076	165,912	66,233	10,972	1,153	—	—	1,673,204
Mortgage Loans	394	5,293	660	263	44	5	—	—	6,659
Invested Securities Lending Collateral	136,539	1,837,043	229,152	91,478	15,153	1,593	52,879	5,315	2,369,152
Investment Contracts	—	—	—	—	—	—	32,734	17,499	50,233
Total Investments	$1,074,920	$14,462,385	$ 1,804,030	$ 720,175	$ 119,298	$ 12,539	$1,906,895	$ 216,977	$20,317,219

Actuarial Methods and Assumptions

The information contained in the Schedules of Funding Progress is based on the actuarial study dated January 1, 2004 and calendar year 2004 activity. The actuarial accrued liability and schedule of funding progress is presented by the retirement systems for the last ten years in their separately presented financial reports based on the report generated by the latest actuarial study, conducted by Gabriel, Roeder, Smith & Company. The actuarial value of assets is based on a smoothed expected investment income rate. Investment income in excess or shortfall of the expected 8 percent return on fair value is smoothed over a five-year period with 20 percent of a year's excess or shortfall being recognized each year, beginning with the current year. All systems use the entry age actuarial cost method and the level percent of payroll amortization method. The remaining amortization period for all systems is open group, 20 years, open period. An inflation rate of 3 percent is used for all systems. Post retirement cost of living adjustments are non-compounding and are based on the original benefit. The adjustments are also limited to the actual CPI increase for the year with any unusual CPI increase not met carried forward to subsequent years. Below is the Schedule of Funding Progress.

Schedules of Funding Progress
By Valuation Date
(Expressed in Thousands)

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System	Governors and Legislative Pension Plan
Actuarial Value of Assets:						
January 1, 2003	$ 899,290	$ 10,848,586	$ 1,349,435	$ 553,589	$ 90,904	$ 10,719
January 1, 2004	$ 913,949	$ 11,657,525	$ 1,448,888	$ 589,502	$ 97,412	$ 10,905
December 31, 2004	$ 913,074	$ 12,233,337	$ 1,524,904	$ 610,688	$ 100,814	$ 10,650
Actuarial Accrued Liability (AAL):						
January 1, 2003	$ 976,918	$ 11,764,353	$ 1,458,491	$ 521,164	$ 90,573	$ 8,706
January 1, 2004	$ 982,569	$ 12,351,310	$ 1,556,758	$ 549,378	$ 97,902	$ 8,812
December 31, 2004	$ 1,011,508	$ 13,237,071	$ 1,688,404	$ 586,925	$ 104,035	$ 8,788
Unfunded Actuarial Accrued Liability (UAAL):						
January 1, 2003	$ 77,628	$ 915,767	$ 109,056	$ (32,425)	$ (331)	$ (2,013)
January 1, 2004	$ 68,620	$ 693,785	$ 107,870	$ (40,124)	$ 490	$ (2,093)
December 31, 2004	$ 98,434	$ 1,003,734	$ 163,500	$ (23,763)	$ 3,221	$ (1,862)
Funding Ratios:						
January 1, 2003	92.1%	92.2%	92.5%	106.2%	100.4%	123.1%
January 1, 2004	93.0%	94.4%	93.1%	107.3%	99.5%	123.8%
December 31, 2004	90.3 %	92.4 %	90.3 %	104.0 %	96.9 %	121.2 %
Annual Covered Payroll:						
January 1, 2003	$ 142,325	$ 2,929,449	$ 268,478	$ 71,354	$ 11,173	$ 556
January 1, 2004	$ 139,470	$ 2,959,347	$ 278,402	$ 75,619	$ 10,888	$ 556
December 31, 2004	$ 139,362	$ 3,084,317	$ 293,797	$ 79,638	$ 11,646	$ 556
UAAL as a Percent of Covered Payroll:						
January 1, 2003	54.5%	31.3%	40.6%	(45.4)%	(3.0)%	(362.1)%
January 1, 2004	49.2 %	23.4 %	38.7 %	(53.1) %	4.5 %	(376.4) %
December 31, 2004	70.6 %	32.5 %	55.7 %	(29.8) %	27.7 %	(334.9) %

B. **Teachers Insurance and Annuity Association-College Retirement Equities Fund**

Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), privately administered defined-contribution retirement plans, provides individual retirement fund contracts for each eligible participating employee. Eligible employees are mainly state college/university faculty and staff. Benefits to retired employees are generally based on the value of the individual contracts and the estimated life expectancy of the employee at retirement and are fully vested from the date of employment. The total current year required contribution and the amount paid is 14.2 percent of the employee's annual salary. Most of the employers contribute both the employer and the employee share of 7.1 percent. The State has no further liability once annual contributions are made.

The total contribution made by the college and university (component units) to the TIAA-CREF retirement system for June 30, 2005 and 2004, were $98.347 million and $104.783 million, respectively.

NOTE 17. POSTEMPLOYMENT BENEFITS

At the option of the individual state departments, employees may be offered participation in a post retirement benefits program, as set forth in Section 67–19–14(2) of the *Utah Code*. In order to qualify, the employee must be eligible to receive retirement benefits. Upon retirement most employees, including those age 65 and over, may be paid for 25 percent of unused accumulated sick leave at the employee's current rate of pay. In addition, the employee may receive state paid health and life insurance coverage up to age 65, but not to exceed five years. If the employee has not reached age 65 after the five-year limitation is reached, then that employee may exchange one sick leave day in excess of 60 days, after the 25 percent payout, for one month of paid health and life insurance coverage. After age 65, the employee may use any remaining unused accumulated sick leave to exchange for spouse health insurance to age 65, or Medicare supplemental insurance for the employee or spouse. As of June 30, 2005, there were 2,114 individuals on the program. The insurance coverage is paid 100 percent by the State for individuals retiring before July 1, 2000. Individuals retiring thereafter are required to pay between 2 and 7 percent of the cost depending on the coverage selected.

The 2005 Legislature passed House Bill 213, *Unused Sick Leave at Retirement Amendments* that will become effective January 1, 2006. Beginning January 1, upon retirement, the employee receives 25 percent of the value of unused accumulated sick leave as a mandatory employer contribution into a 401(k) account. State paid health and life insurance coverage, available up to five years to employees who retire prior to age 65, will phase out over the next five years. Each day of unused accumulated sick leave earned prior to January 1, 2006, may continue to be used to exchange for one month of paid health and life insurance coverage for retired employees that have not reached age 65, or for spouse health insurance to age 65, or Medicare supplemental insurance for the employee or spouse. However, unused accumulated sick leave earned after January 1, 2006 will be converted to a health reimbursement account for the retiree at retirement.

The Governmental Accounting Standards Board (GASB) issued Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* Additionally GASB issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statements 43 and 45, which are effective for the State's fiscal years beginning July 1, 2006 and 2007, respectively, will require that the long-term cost of retirement health care and other obligations for postemployment benefits be determined on an actuarial basis and reported similar to pension plans. A preliminary actuarial study was completed to determine the actuarial accrued liability as of December 31, 2004. The study estimated the liability if funded at transition of $536.033 million, or $827.911 million if not funded at transition. GASB Statement 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements. The 2006 Legislature is expected to address the funding of these benefits in the next General Session.

The estimated 25 percent sick leave payouts at retirement are included in the liability for compensated absences. Charges to agency budgets are made on an ongoing basis to fund the current payments for postemployment benefits and compensated absences. For the year ended June 30, 2005, $15.817 million in postemployment benefit expenditures were recognized.

A liability is also reported in the Pension Trust Funds of $5.285 million, including $2.196 million for compensated absences, which will be liquidated by assets of Utah Retirement Systems.

All employers who participate in the State Retirement Systems are eligible to participate in the Public Employees Long-term Disability Program per Section 49–21–201 of the *Utah Code*. Employees of those state agencies who participate in the program and meet long-term disability eligibility receive benefits for the duration of their disability up to the time they are eligible for retirement or until age 65. Benefits begin after a three-month waiting period and are paid 100 percent by the program. As of June 30, 2005, there are 337 state employees receiving benefits. The program is funded by paying premiums to the Public Employees Health Program (component unit), where assets are set aside for future payments. For the year ended June 30, 2005, the State paid $4.542 million in premiums and the program has $26.558 million in assets.

NOTE 18. RISK MANAGEMENT AND INSURANCE

It is the policy of the State of Utah to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished by the State through the Risk Management (internal service fund) and the Public Employees Health Program (component unit). The State is the predominant participant in these programs. The Risk Management Fund manages the general property, auto/physical damage, and liability risk of the State. The Public Employees Health Program manages the health insurance programs of the State. The University of Utah and Utah State University (component units) each maintain self-insurance funds to manage health care. The University of Utah also maintains a self-insurance fund to manage medical malpractice liabilities.

The State has determined that the risk funds can economically and effectively manage the State's risks internally and have set aside assets for claim settlement. The risks are covered through reserves and commercial insurance for excessive losses. The State has not had any losses or settlements that exceeded the commercial excess insurance coverage for any of the last three years. The risk funds service all claims for risk of loss to which the State is exposed, including general liability, property and casualty, auto/physical damage, group medical and dental, and some environmental claims. They also service the general risk claims for all local school districts and many charter schools within the State. All funds, agencies, schools, and public authorities of the State may participate in the State's Risk Management and Public Employees Health Programs. The risk funds allocate the cost of providing claims servicing, claims payment, and commercial insurance by charging a "premium" to each agency, public authority, or employee, based on each organization's estimated current year liability and property values. The reserve for liability losses is determined using an independent actuarial study based on past, current, and estimated loss experiences.

Risk Management and Public Employees Health Program claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated and include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrines and insurance benefits, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities are recomputed periodically by actuaries to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Inflation is included in this calculation because reliance is based on historical data that reflects past inflation and other appropriate modifiers. The Risk Management claim liabilities reserves are reported using a discount rate of 3 percent. The Public Employees Health Program long-term disability benefit reserves are reported using a discount rate of 5.5 percent. The primary government and the discrete component units of the State paid premiums to the Public Employees Health Program of $220.633 million and $11.607 million, respectively, for health and life insurance coverage in fiscal year 2005. In addition, the State Department of Health paid $29.150 million in premiums to the Public Employees Health Program for the Children's Health Insurance Program.

The State covers its workers' compensation risk by purchasing insurance from Workers' Compensation Fund (a related organization). The University of Utah and Utah State University report claims liabilities if it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The University of Utah and the University Hospital have a "claims made" umbrella malpractice insurance policy in an amount considered adequate by its respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances. Amounts for the current year are included below.

The following table presents the changes in claims liabilities balances (short-and long-term combined) during fiscal years ended June 30, 2004, and June 30, 2005:

Changes in Claims Liabilities
(Expressed in Thousands)

	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management:				
2004	$ 43,659	$ 5,506	$ (8,742)	$ 40,423
2005	$ 40,423	$ 11,250	$ (7,000)	$ 44,673
Public Employees Health Program:				
2004	$ 80,254	$ 412,313	$(393,253)	$ 99,314
2005	$ 99,314	$ 463,990	$(455,908)	$ 107,396
College and University Self-Insurance:				
2004	$ 35,000	$ 124,581	$(114,682)	$ 44,899
2005	$ 44,899	$ 154,507	$(143,993)	$ 55,413

NOTE 19. SUBSEQUENT EVENTS

The Salt Lake Community College (nonmajor component unit) broke ground on July 11, 2005, on a new public safety training center on the Salt Lake Community College Miller Campus. The facility will include training facilities for the Utah Department of Public Safety as well as areas for the College's Culinary Arts program and Food Services operation. Construction will include a dormitory-style building for trainees and total approximately 152,000 square feet at an estimated cost of $21.7 million.

On July 14, 2005, the University of Utah (major component unit) issued $30.48 million of Hospital Revenue Refunding Bonds Series 2005 A. Principal on the bonds is due annually commencing August 1, 2009 through August 1, 2018. Bond interest is due semiannually commencing February 1, 2006, at rates ranging from 4.50% to 5.00%. Proceeds from these bonds will be used to partially refund Hospital Revenue Bonds Series 1998 and 2001. On August 2, 2005, the University also issued $42.955 million of Auxiliary and Campus Facilities Revenue Refunding Bonds Series 2005 A. Initial principal payment on the bonds is due April 1, 2006, and annually thereafter commencing on April 1, 2009 through April 1, 2020. Bond interest is due semiannually commencing October 1, 2005, at rates ranging from 3.00% to 5.00%. Proceeds from these bonds will be used to partially refund Auxiliary and Campus Facilities Revenue Bonds Series 1998.

In September of 2005, Weber State University (nonmajor component unit) issued a $22.81 million Student Fee and Student Facilities System Revenue Bonds, Series 2005 with Zion's Bank Public Finance. The funds from these bonds will be used to renovate the Shephard Student Union Building. This project includes the design, construction, furnishings, and equipment required to complete the renovation. Principal on the bonds is due annually commencing April 1, 2009 through April 1, 2032. Bond interest is due semiannually commencing April 1, 2006, at rates ranging from 3.250% to 5.125%.

Subsequent to June 30, 2005, the Utah Housing Corporation (major component unit) issued $17 million Single-Family Mortgage Purchase Variable Rate Bonds, Series 2005 E, maturing on January 1, 2027, interest at a variable rate adjusted weekly, and issued $13 million Single-Family Mortgage Purchase Fixed Rate Bonds, Series 2005 E, maturing on July 1, 2007 through 2015, and on January 1, 2023 and 2028, interest rates of 3.25% to 4.60%.

The Student Loan Purchase Program (Student Assistance Programs, major enterprise fund) issued additional Student Loan Revenue Bonds under the authority of the 1993 Revenue Bonds General Indenture, Thirteenth Supplemental Indenture in the amount of $185,000,000 dated September 1, 2005. The Series 2005 AA Bonds are limited obligations of the State Board of Regents secured by and payable solely from the Trust Estate established under the Indenture pursuant to which the Series 2005 AA Bonds are issued.

State of Utah

Budgetary Comparison Schedule
General Fund

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
General Revenues				
Sales Tax	$ 1,497,250	$ 1,590,000	$ 1,634,522	$ 44,522
Licenses, Permits, and Fees:				
Insurance Fees	5,829	5,597	5,174	(423)
Court Fees	5,113	5,139	4,115	(1,024)
Other Licenses, Permits, and Fees	7,005	7,303	8,651	1,348
Investment Income	7,450	11,000	13,602	2,602
Miscellaneous Taxes and Other:				
Beer Tax	9,680	9,600	8,918	(682)
Cigarette and Tobacco Tax	50,000	50,400	53,023	2,623
Inheritance Tax	4,050	4,000	2,952	(1,048)
Insurance Premium Tax	65,150	68,000	67,359	(641)
Oil, Gas, and Mining Severance Tax	42,100	50,500	64,932	14,432
Taxpayer Rebates	(5,500)	(5,600)	(5,949)	(349)
Court Collections	5,625	6,177	5,861	(316)
Other Taxes	23,534	16,400	17,401	1,001
Miscellaneous Other	9,149	8,384	10,056	1,672
Total General Revenues	1,726,435	1,826,900	1,890,617	63,717
Department Specific Revenues				
Restricted Sales Tax	2,625	2,625	2,625	—
Federal Contracts and Grants	1,783,058	1,774,132	1,774,132	—
Departmental Collections	247,419	250,538	258,928	8,390
Higher Education Collections	324,053	323,533	323,533	—
Federal Mineral Lease	48,024	72,290	82,704	10,414
Investment Income	2,641	3,963	4,043	80
Miscellaneous	410,806	438,540	423,283	(15,257)
Total Department Specific Revenues	2,818,626	2,865,621	2,869,248	3,627
Total Revenues	4,545,061	4,692,521	4,759,865	67,344
Expenditures				
General Government	199,200	204,386	171,717	32,669
Human Services and Youth Corrections	583,213	592,171	585,463	6,708
Corrections, Adult	193,688	195,942	193,613	2,329
Public Safety	143,608	194,247	162,723	31,524
Courts	108,696	108,743	106,276	2,467
Health and Environmental Quality	1,754,485	1,712,208	1,704,088	8,120
Higher Education – State Administration	42,327	39,133	39,121	12
Higher Education – Colleges and Universities	946,471	958,325	958,325	—
Employment and Family Services	275,713	427,032	420,067	6,965
Natural Resources	135,081	142,378	124,993	17,385
Community and Economic Development	108,726	98,760	86,631	12,129
Business, Labor, and Agriculture	103,342	89,243	77,596	11,647
Total Expenditures	4,594,550	4,762,568	4,630,613	131,955
Excess Revenues Over (Under) Expenditures	(49,489)	(70,047)	129,252	199,299
Other Financing Sources (Uses)				
Transfers In	194,927	307,040	307,040	—
Transfers Out	(213,693)	(297,886)	(297,886)	—
Total Other Financing Sources (Uses)	(18,766)	9,154	9,154	0
Net Change in Fund Balance	(68,255)	(60,893)	138,406	199,299
Budgetary Fund Balance – Beginning	321,163	321,163	321,163	—
Budgetary Fund Balance – Ending	$ 252,908	$ 260,270	$ 459,569	$ 199,299

The Notes to Required Supplementary Information – Budgetary Reporting are an integral part of this schedule.

Budgetary Comparison Schedule
Uniform School Fund

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
General Revenues				
Individual Income Tax	$ 1,712,950	$ 1,830,000	$ 1,934,028	$ 104,028
Corporate Tax	191,950	198,500	206,730	8,230
Investment Income	8,900	8,900	13,909	5,009
Miscellaneous Other	6,987	11,000	6,802	(4,198)
Total General Revenues	1,920,787	2,048,400	2,161,469	113,069
Department Specific Revenues				
Federal Contracts and Grants	289,364	344,665	344,665	—
Departmental Collections	3,698	2,790	2,790	—
Miscellaneous:				
School Lunch Tax	15,809	18,123	18,123	—
Driver Education Fee	4,310	4,546	4,546	—
Other	4,581	8,046	8,039	(7)
Total Department Specific Revenues	317,762	378,170	378,163	(7)
Total Revenues	2,238,549	2,426,570	2,539,632	113,062
Expenditures				
Public Education	2,165,421	2,219,316	2,177,845	41,471
Total Expenditures	2,165,421	2,219,316	2,177,845	41,471
Excess Revenues Over (Under) Expenditures	73,128	207,254	361,787	154,533
Other Financing Sources (Uses)				
Transfers In	5,211	2,980	2,980	—
Transfers Out	(160,460)	(288,872)	(288,872)	—
Total Other Financing Sources (Uses)	(155,249)	(285,892)	(285,892)	0
Net Change in Fund Balance	(82,121)	(78,638)	75,895	154,533
Budgetary Fund Balance – Beginning	152,647	152,647	152,647	—
Adjustments to Beginning Fund Balances	(1,066)	(1,066)	(1,066)	—
Fund Balances – Beginning As Adjusted	151,581	151,581	151,581	—
Budgetary Fund Balance – Ending	$ 69,460	$ 72,943	$ 227,476	$ 154,533

The Notes to Required Supplementary Information – Budgetary Reporting are an integral part of this schedule.

State of Utah

Budgetary Comparison Schedule
Transportation Fund

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
General Revenues				
Motor Fuel Tax	$ 240,367	$ 235,000	$ 241,484	$ 6,484
Special Fuel Tax	87,850	90,000	93,837	3,837
Licenses, Permits, and Fees:				
Motor Vehicle Registration Fees	29,986	31,014	30,690	(324)
Proportional Registration Fees	11,495	12,005	12,122	117
Temporary Permits	380	370	336	(34)
Special Transportation Permits	5,797	6,003	6,612	609
Highway Use Permits	7,896	8,704	8,421	(283)
Motor Vehicle Control Fees	4,198	4,702	4,757	55
Miscellaneous	1,650	2,002	1,895	(107)
Investment Income	1,999	2,200	3,457	1,257
Miscellaneous Other	2,399	1,000	1,677	677
Total General Revenues	394,017	393,000	405,288	12,288
Department Specific Revenues				
Restricted Sales and Aviation Fuel Taxes	32,243	34,743	35,438	695
Federal Contracts and Grants	140,109	197,328	197,328	—
Departmental Collections	36,738	46,207	46,225	18
Federal Aeronautics	25,000	33,000	34,416	1,416
Investment Income	693	1,028	1,048	20
Miscellaneous	4,650	19,790	20,319	529
Total Department Specific Revenues	239,433	332,096	334,774	2,678
Total Revenues	633,450	725,096	740,062	14,966
Expenditures				
Transportation	542,172	708,685	701,332	7,353
Total Expenditures	542,172	708,685	701,332	7,353
Excess Revenues Over (Under) Expenditures	91,278	16,411	38,730	22,319
Other Financing Sources (Uses)				
Transfers In	17,357	48,406	48,406	—
Transfers Out	(102,034)	(109,216)	(109,216)	—
Total Other Financing Sources (Uses)	(84,677)	(60,810)	(60,810)	0
Net Change in Fund Balance	6,601	(44,399)	(22,080)	22,319
Budgetary Fund Balance – Beginning	182,569	182,569	182,569	—
Budgetary Fund Balance – Ending	$ 189,170	$ 138,170	$ 160,489	$ 22,319

The Notes to Required Supplementary Information – Budgetary Reporting are an integral part of this schedule.

Budgetary Comparison Schedule
Centennial Highway Fund

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
General Revenues				
Sales Tax	$ 5,000	$ 5,200	$ 5,519	$ 319
Motor Vehicle Registration Fees	20,400	20,600	20,422	(178)
Investment Income	1,400	1,400	3,137	1,737
Total General Revenues	26,800	27,200	29,078	1,878
Department Specific Revenues				
Federal Contracts and Grants	35,000	44,282	44,282	—
Total Department Specific Revenues	35,000	44,282	44,282	0
Total Revenues	61,800	71,482	73,360	1,878
Expenditures				
Transportation	118,195	152,953	152,953	—
Total Expenditures	118,195	152,953	152,953	0
Excess Revenues Over (Under) Expenditures	(56,395)	(81,471)	(79,593)	1,878
Other Financing Sources (Uses)				
General Obligation Bonds Issued	48,000	47,050	47,050	—
Premium (Discount) on Bonds Issued	—	2,950	2,950	—
Transfers In	127,163	134,345	134,345	—
Transfers Out	(125,371)	(137,851)	(137,851)	—
Total Other Financing Sources (Uses)	49,792	46,494	46,494	0
Net Change in Fund Balance	(6,603)	(34,977)	(33,099)	1,878
Budgetary Fund Balance – Beginning	216,914	216,914	216,914	—
Budgetary Fund Balance – Ending	$ 210,311	$ 181,937	$ 183,815	$ 1,878

The Notes to Required Supplementary Information – Budgetary Reporting are an integral part of this schedule.

State of Utah

Budgetary Comparison Schedule
Budget To GAAP Reconciliation

For the Fiscal Year Ended June 30, 2005 (Expressed in Thousands)

	General Fund	Uniform School Fund	Transportation Fund	Centennial Highway Fund
Revenues				
Actual total revenues (budgetary basis)	$ 4,759,865	$ 2,539,632	$ 740,062	$ 73,360
Differences – Budget to GAAP:				
Intrafund revenues are budgetary revenues but are not revenues for financial reporting	(287,335)	(4,152)	(22,255)	—
Higher education and Utah Schools for the Deaf and the Blind collections are budgetary revenues but are not revenues for financial reporting	(332,299)	(4,612)	—	—
Change in revenue accrual for nonbudgetary Medicaid claims	7,889	—	—	—
Change in tax accruals designated by law for postemployment and other liabilities are revenues for financial reporting but not for budgetary reporting	30,746	17,496	1,755	98
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	$ 4,178,866	$ 2,548,364	$ 719,562	$ 73,458
Expenditures				
Actual total expenditures (budgetary basis)	$ 4,630,613	$ 2,177,845	$ 701,332	$ 152,953
Differences – Budget to GAAP:				
Intrafund expenditures for reimbursements are budgetary expenditures but are not expenditures for financial reporting	(287,335)	(4,152)	(22,255)	—
Expenditures related to higher education and Utah Schools for the Deaf and the Blind collections are budgetary expenditures but are not expenditures for financial reporting	(332,299)	(4,612)	—	—
Certain budgetary transfers and other charges are reported as expenditures for financial reporting	(7,968)	—	—	—
Leave/postemployment charges budgeted as expenditures when earned rather than when taken or due	2,132	(283)	(293)	—
Change in accrual for Medicaid incurred but not reported claims excluded from the budget by statute	11,524	—	—	—
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	$ 4,016,667	$ 2,168,798	$ 678,784	$ 152,953

The Notes to Required Supplementary Information – Budgetary Reporting are an integral part of this schedule.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

Budgetary Presentation

A Budgetary Comparison Schedule is presented for each of the State's major governmental funds for which the Legislature enacts an annual budget. An annual budget is also adopted for the Debt Service Fund, a nonmajor fund. The budgets are enacted through passage of *Appropriations Acts*. Budgets for specific general revenues are not adopted through an *Appropriations Act* but are based on supporting estimates approved by the Executive Appropriations Committee of the Legislature. General revenues are those revenues available for appropriation for any program or purpose as allowed by law. Department-specific revenues are revenues dedicated by an *Appropriations Act* or restricted by other law or external grantor to a specific program or purpose.

Original budgets and related revenue estimates represent the spending authority enacted through *Appropriations Acts* as of June 30, 2005, and include nonlapsing carryforward balances from the prior fiscal year. Final budgets represent the original budget as amended by supplemental appropriations and related changes in revenue estimates, executive order reductions when applicable, and changes authorized or required by law when department-specific revenues either exceed or fall short of budgeted amounts.

Unexpended balances at yearend may: (***1***) lapse to unrestricted balances and be available for future appropriation; (***2***) lapse to restricted balances and be available for future appropriation restricted for specific purposes as defined by statute; or (***3***) be nonlapsing, which means balances are reported as reservations of fund balance. The nonlapsing balances are considered automatically reappropriated as authorized by statute, by an *Appropriations Act*, or by limited encumbrances.

Budgetary Control

In September of each year, all agencies of the government submit requests for appropriations to the Governor's Office of Planning and Budget so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

In January, the proposed budget is presented to the Legislature. The Legislature reviews the budget, makes changes, and prepares the annual *Appropriations Act*. The Legislature passes the *Appropriations Act* by a simple majority vote. The *Appropriations Act* becomes the State's authorized operating budget upon the Governor's signature. The *Constitution of Utah* requires that budgeted expenditures not exceed estimated revenues and other sources of funding, including beginning balances.

Budgetary control is maintained at the functional or organizational level, as identified by numbered line items in the *Appropriations Act*. Budgets may be modified if federal funding or revenue specifically dedicated for a line item exceeds original estimates in the *Appropriations Act*. If funding sources are not sufficient to cover the appropriation, the Governor is required to reduce the budget by the amount of the deficiency. Any other changes to the budget must be approved by the Legislature in a supplemental *Appropriations Act*.

Any department that spends more than the authorized amount must submit a report explaining the overspending to the State Board of Examiners. The Board will recommend corrective action, which may include a request to the Legislature for a supplemental appropriation to cover the deficit. If a supplemental appropriation is not approved, the department must cover the overspending with the subsequent year's budget. In the General Fund, the State Courts Administrator's budget for juror and witness fees was overexpended by $128 thousand. This deficit is allowed by statute and will be funded with future appropriations. All other appropriated budgets of the State were within their authorized spending levels.

Spending Limitation

The State also has an appropriation limitation statute that limits the growth in state appropriations. The total of the amount appropriated from unrestricted General Fund sources plus the income tax revenues appropriated for higher education is limited to the growth in population and inflation. The appropriations limitation can be exceeded only if a fiscal emergency is declared and approved by more than two-thirds of both houses of the Legislature, or if approved by a vote of the people. However, the appropriations limitation statute may be amended by a majority of both houses of the Legislature. Appropriations for debt service, emergency expenditures, amounts from other than unrestricted revenue sources, transfers to the Budgetary Reserve Account (Rainy Day Fund), or capital developments meeting certain criteria are exempt from the appropriations limitation. In addition, the 2005 Legislature amended the definition of appropriations to exclude transfers to the Education Budget Reserve Account and the Transportation Investment Fund. For the fiscal year ended June 30, 2005, the State was $88.2 million below the appropriations limitation. The State is currently below the fiscal year 2006 appropriations limitation by $69.1 million.

INFORMATION ABOUT INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

As allowed by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the State has adopted an alternative to reporting depreciation on roads and bridges (infrastructure assets) maintained by the Utah Department of Transportation (UDOT). Under this alternative method, referred to as the "modified approach," infrastructure assets are not depreciated, and maintenance and preservation costs are expensed.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform and document replicable condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the State.
- Document that the infrastructure assets are being preserved approximately at, or above the condition level established by the State.

Roads

UDOT uses the Pavement Management System to determine the condition of 5,724 centerline miles of state roads. The assessment is based on the Ride Index, which is a measure of ride quality on a 1 to 5 scale, with 5 representing new or nearly new pavements that provide a very smooth ride. The Ride Index is calculated from the International Roughness Index (IRI), with pavement type (asphalt or concrete) taken into account. The IRI is a mathematical statistic based on the longitudinal profile of the road.

Category	Range	Description
Very Good	4.35 – 5.00	New or nearly new pavements that provide a very smooth ride, and are mainly free of distress.
Good	3.55 – 4.34	Pavements that provide an adequate ride, and exhibit few, if any, visible signs of distress.
Fair	2.75 – 3.54	Surface defects in this category such as cracking, rutting, and raveling are affecting the ride.
Poor	1.85 – 2.74	These roadways have deteriorated to such an extent that they are in need of resurfacing and the ride is noticeably rough.
Very Poor	1.00 – 1.84	Pavements in this category are severely deteriorated, and the ride quality must be improved.

Condition Level

The State's established condition level is to maintain 50 percent of its roads with a rating of "fair" or better and no more than 15 percent of roads with a rating of "very poor."

The State performs complete assessments on a calendar year basis. The following table reports the result of pavements with ratings of "fair" or better (ratings of 2.75 through 5.0) or "very poor" (ratings of 1.0 through 1.84) for the last three years:

Rating	2004	2003	2002
Fair or Better	74.7%	74.8%	73.0%
Very Poor	6.2%	6.4%	6.6%

The following table presents the State's estimated amounts needed to maintain and preserve roads at or above the established condition levels addressed above, and the amounts actually spent for each of the past five reporting periods (in thousands):

FISCAL YEAR	ESTIMATED SPENDING	ACTUAL SPENDING
2005	$ 226,345	$ 307,858
2004	$ 231,214	$ 262,741
2003	$ 230,860	$ 224,645
2002	$ 242,287	$ 281,260
2001	$ 239,273	$ 209,439

Bridges

UDOT uses the Structures Inventory System to monitor the condition of the 1,810 state-owned bridges. A number, ranging from 1 to 100, is calculated based on condition, geometry, functional use, safety, and other factors. Three categories of condition are established in relation to the number range as follows:

Category	Range	Description
Good	80 – 100	Preventive maintenance requirements include repair leaking deck joints, apply deck overlays and seals, place concrete sealers to splash zones, paint steel surfaces, and minor beam repairs.
Fair	50 – 79	Corrective repairs include deck, beam, and substructure repairs, fixing settled approaches, and repairing collision damage.
Poor	1 – 49	Major rehabilitation and replacement includes deck, beam, or substructure replacements or replacement of the entire bridge.

Condition Level

The State performs complete assessments on an annual basis ending April 1 of each year. The established condition level is to maintain 50 percent of the bridges with a rating of "good" and no more than 15 percent with a rating of "poor." The following table reports the results of the bridges assessed for the past three years:

Rating	2005	2004	2003
Good	71.0%	70.0%	70.0%
Poor	3.0%	3.0%	3.0%

The following table presents the State's estimated amounts needed to maintain and preserve bridges at or above the established condition levels addressed above, and the amounts actually spent for each of the past five reporting periods (in thousands):

FISCAL YEAR	ESTIMATED SPENDING	ACTUAL SPENDING
2005	$ 39,943	$ 54,328
2004	$ 40,803	$ 46,366
2003	$ 40,739	$ 39,644
2002	$ 42,757	$ 49,634
2001	$ 42,224	$ 36,960

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APPENDIX B

BASIC DOCUMENTATION

Table Of Contents

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The following are definitions of certain terms from the Indenture and the Lease and summaries or extracts of certain provisions of the Indenture, the Lease and the State Facilities Master Agency Agreement. Reference is made to the Indenture, the Lease and the State Facilities Master Agency Agreement for complete recital of their terms. During the period of the offering of the 2006A Bonds, copies of the Indenture and the Lease may be obtained from the chief contact person of the State under "INTRODUCTION—Contact Persons" above. Subsequent to the offering of the 2006A Bonds copies of the Indenture, the Lease and the State Facilities Master Agency Agreement may be obtained from the Trustee.

DEFINITIONS OF CERTAIN TERMS

"*Acquisition*" (and other forms of the word "acquire") shall have the same meaning as when such term is used in the Act, including Section 63B–1–303 thereof, as amended from time to time.

"*Act*" shall mean the State Building Ownership Authority Act, Title 63B, Chapter 1, Part 3 of the Utah Code.

"*Additional Bonds*" shall mean additional parity Bonds authorized to be issued by the Issuer pursuant to the terms and conditions of the Indenture.

"*Additional Facilities*" shall mean any "facility" within the meaning of the Act, to be Acquired or Constructed pursuant to the Act as provided in the Lease as supplemented and amended from time to time by a Supplemental Lease.

"*Additional Projects*" shall mean the undertaking by the Issuer, at the direction of the Lessee, of the Acquisition or Construction of any Additional Facilities, as authorized by the Act and pursuant to the Lease.

"*Additional Rentals*" shall mean the amount or amounts payable by the Lessee pursuant to the Lease for the items described herein under "THE LEASE—Rentals Payable–General" below.

"*Agency Agreement*" shall mean (a) that certain State Facilities Master Agency Agreement, dated as of September 1, 1994, as supplemented and amended between the Lessor, as principal, and the Division of Facilities Construction and Management of the Department of Administrative Services of the State, as the Lessor's agent, relating to the undertaking and completion of the Projects and (b) any agency agreement between the Lessor, as principal, and any governmental body or other entity selected by the Lessor for purposes of causing the undertaking and completion of any Additional Project or Additional Projects.

"*Base Rental Payment Date*" shall mean the first day of each May and November during the term of the Lease, except that with respect to any Variable Rate Rentals, the Base Rental Payment Date shall mean each date on which such Variable Rate Rentals are due and payable as provided in the Supplemental Lease providing for such Variable Rate Rentals.

"*Base Rental Payment Schedule*" shall mean the Base Rental Payment Schedule attached to the Lease and the Attachments thereto relating to each of the Facilities, as such Schedule (including such Attachments) may be revised from time to time in accordance with the Indenture.

"*Base Rentals*" shall mean the amount or amounts (comprising a principal component and an interest component) payable by the Lessee pursuant to the Lease in consideration of the right to the use and enjoyment of the Leased Property during the term of the Lease, on the dates and in the amounts set forth in the Base Rental Payment Schedule and on the dates and in the amounts representing the interest component for Variable Rate Rentals calculated pursuant to the Supplemental Lease providing for such Variable Rate Rentals.

"*Bond*" or "*Bonds*" shall mean all bonds previously issued under the Indenture, the 2006A Bonds and any Additional Bonds authenticated and delivered from time to time under the Indenture.

"*Bond Fund*" shall mean the fund by that name created by the Indenture to be used to pay the principal of and interest on the Bonds as provided in the Indenture.

"*Bond Interest Payment Dates*" shall mean May 15 and November 15 of each year so long as any of the Bonds are Outstanding, or with respect to Variable Rate Bonds, such dates as shall be specified for the payment of interest on such Bonds in the Supplemental Indenture authorizing such Variable Rate Bonds.

"*Bond Payment Date*" shall mean a Bond Interest Payment Date and/or a Bond Principal Payment Date.

"*Bond Principal Payment Dates*" shall mean May 15 of each year.

"*Bondowner*" or "*Owner of the Bonds*," or any similar term, shall mean the Person in whose name a Bond is registered in the register kept for the registration, exchange and transfer of Bonds.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended and supplemented from time to time, and any applicable regulations thereunder.

"*Completion Certificate*" shall mean the certificate (including attachments thereto) delivered with respect to each Project by or at the direction of an authorized Lessee representative pursuant to the Lease and the Indenture, evidencing completion of such Project, the establishment of the Completion Date therefor, acceptance of the portion of the Leased Property represented by such Project by the Lessee and certain other matters.

"*Completion Date*" shall mean, with respect to each Project, the date of completion of such Project and of final acceptance of the portion of the Leased Property represented by such Project by the Lessee, all as evidenced by the delivery of the Completion Certificate relating thereto.

"*Construction*" (and other forms of the word "construct") shall have the same meaning as when such term is used in the Act, including Section 63B–1–303 thereof, as amended from time to time.

"*Contractor*" shall mean such reputable contractor or contractors designated as general contractor for any or all of the Facilities.

"*Event of Default*" shall mean one or more of the events of default described in the Lease and the Indenture.

"*Event of Nonappropriation*" shall mean a nonrenewal of the term of the Lease by the Lessee, determined by the failure (for whatever reason) of the State to enact into law a State budget that appropriates and allocates to or for the benefit of the Lessee for purposes of the Lease moneys sufficient to pay the Base Rentals and reasonably estimated Additional Rentals for the next succeeding Renewal Term as provided in the Lease or determined by the unavailability of such moneys for such purpose for any other reason. To the extent any non–lapsing appropriations are used as the basis for determining that sufficient moneys have been appropriated for a Fiscal Year, such appropriations shall be deemed to have been appropriated and to be legally available for the purpose of paying Rentals during such Fiscal Year. The existence or nonexistence of an Event of Nonappropriation shall be determined as of (a) the date on which the Utah State Legislature (the "Legislature") fails or refuses to adopt a final budget in accordance with applicable law which appropriates sufficient moneys to pay such Base Rentals and reasonably estimated Additional Rentals for the next succeeding Renewal Term as contemplated by the Lease or (b) the date on which the Governor of the State of Utah (the "Governor") vetoes the appropriation to pay such Rentals contained in a final budget adopted by the Legislature, which veto is not thereafter overridden as provided by law; *provided, however,* that the Trustee may waive any Event of Nonappropriation that is cured by the Lessee within a reasonable time if, in the Trustee's judgment, such waiver is in the best interests of the Owners of the Bonds, except as otherwise provided in the Lease; and *provided, further, however,* that in no event shall an Event of Nonappropriation occur or be deemed to occur prior to June 1 of the Fiscal Year next preceding each Renewal Term, notwithstanding anything in the Lease to the contrary. If the State changes its Fiscal Year to a different twelve–month period than the Fiscal Year in effect on the date of execution of the Lease, the foregoing reference to June 1 shall be deemed to refer to the date that is 30 days prior to the end of such new Fiscal Year.

"*Excepted Property*" shall mean the following described property of the Issuer that is expressly excepted and excluded from the lien and operation of the Indenture, whether such property is now owned on hereafter acquired:

(a) The last day of the term of the leasehold estate created under the Lease and the last day of the term of each Site Lease; *provided, however,* that the Issuer covenants and agrees that it will hold each such last day in trust for the use and benefit of the Owners of the 2006A Bonds and that it will dispose of each such last day from time to time in accordance with such written order as the Trustee in its discretion may give;

(b) Certain property installed by the Lessee or by any sublessee or licensee of the Lessee as provided in the Lease;

(c) Amounts to be transferred pursuant to the Indenture to, or held by the Trustee in, the rebate fund established under any Tax Certificate; and

(d) Additional Facilities in which the Trustee has not been given a lien or security interest as provided in the relevant Supplemental Indenture.

"*Facilities*" shall mean any "facility" within the meaning of the Act to be Acquired or Constructed pursuant to the Act as provided in the Lease.

"*Fiscal Year*" shall mean the 12–month period used from time to time by the Lessee for its financial accounting purposes, such period currently extending from July 1 to the next succeeding June 30.

"*Government Obligations*" shall mean direct general obligations of, or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, the guarantee of which constitutes the full faith and credit obligation of the United States of America (including any such obligations issued or held in book–entry form on the books of the Department of the Treasury of the United States of America).

"*Indenture*" shall mean the Original Indenture as supplemented and amended from time to time in accordance with its terms.

"*Insurance Fund*" shall mean the fund by that name created by the Indenture.

"*Interests Secured by the Indenture*" shall mean the principal of and interest and premium, if any, on the Bonds and all additional amounts and other sums at any time due and owing from or required to be paid by or on behalf of the Issuer under the terms of the Bonds or the Indenture or by the Lessee pursuant to the terms of the Lease.

"*Investment Securities*" shall mean any of the investments in which the moneys and other assets of the State may be invested as permitted from time to time by the State Money Management Act, Title 51, Chapter 7 of the Utah Code, and such other investments as may be identified from time to time in a Supplemental Indenture as "Investment Securities."

"*Issuer*" shall mean the State Building Ownership Authority, a body politic and corporate of the State, and any public body or corporation that succeeds to its powers, duties or functions.

"*Lease*" shall mean the Original Lease as amended and supplemented in accordance with its terms and the terms of the Indenture.

"*Leased Property*" shall mean the Facilities leased and to be leased to the Lessee pursuant to the Lease.

"*Lessee*" shall mean the State, acting through its Department of Administrative Services, Division of Facilities Construction and Management, and any department, division, commission or agency of the State succeeding to such Division's powers, duties or functions.

"*Lessor*" shall mean the State Building Ownership Authority, a body politic and corporate of the State, or any successor to the powers, duties or functions of the Lessor.

"*Mortgage*" shall mean each Mortgage, Security Agreement and Assignment of Rents, substantially in the form attached to the Indenture, to be executed, delivered and recorded as provided in the Indenture and in the Lease and any other "mortgage" (as such term is defined in Section 63B–1–303 of the Act as such Section may be amended from time to time), relating to a mortgage lien, if any, to be imposed on the respective Facilities or Additional Facilities in accordance with the relevant Supplemental Indenture on or before the disbursement of moneys from each Project Account as provided in the Indenture, for the purpose of providing security, in addition to that provided by the Indenture, for the payment of the principal of, and premium, if any, and interest on, the Bonds and the other Interests Secured by the Indenture.

"*Net Proceeds*" when used with respect to any performance or payment bond proceeds, or proceeds (including, but not limited to, any moneys derived from the Risk Management Fund or any self–insurance program) from policies of insurance required by the Lease, or any condemnation award, or any proceeds resulting from default under a Project Contract (including, but not limited to, any such proceeds realized as liquidated damages) with respect to the Leased Property, or with respect to proceeds from any foreclosure on the Leased Property or liquidation, reletting or sale of the Leased Property (subject to the Site Leases), shall mean the amount remaining after deducting all expenses (including attorneys' fees) incurred in the collection of such proceeds or award from the gross proceeds thereof.

"*Notice by Mail*" or "*notice*" of any action or condition "*by Mail*" shall mean a written notice meeting the requirements of the Indenture mailed by first–class mail, postage prepaid, to the Owners of specified Bonds, at the addresses shown in the Register.

"*Officer's Certificate*" when used with respect to the Lessee shall mean a certificate signed by an authorized Lessee representative, or when used with respect to the Issuer or the Lessor, an authorized Lessor representative, and delivered to the Trustee.

"*Optional Payment Date*" shall mean any business day (except as otherwise provided in the Lease) during the term of the Lease upon which the Lessee may elect pursuant to the Lease to purchase the Leased Property (other than State–Owned Sites) or any portion thereof consisting of separate Facilities identified on Subschedules to the Option Price Schedule for the then applicable Option Price or portion thereof with respect to such separately identified Facilities.

"*Option Price*" shall mean the price as specified in the Option Price Schedule at which (together with certain other amounts payable pursuant to the Lease) the Lessee may elect to purchase from the Lessor the Leased Property (other than State–Owned Sites) in its entirety on the applicable Optional Payment Date or any portion thereof consisting of separate Facilities identified on Subschedules to the Option Price Schedule and designated by the Lessee pursuant to the Lease prior to the scheduled payment of all sums to be paid for the Leased Property or any such portion, all as more particularly shown in the Option Price Schedule (or the applicable Subschedule thereto) and as such Option Price Schedule (including the Attachments thereto) may be revised hereafter in accordance with the Indenture.

"*Option Price Schedule*" shall mean the Option Price Schedule attached to the Lease, as such Schedule may be revised hereafter from time to time in accordance with the Indenture.

"*Original Indenture*" shall mean the Indenture of Trust, Assignment of State Facilities Master Lease Agreement and Security Agreement, dated as of September 1, 1994, between the Issuer and the Trustee.

"*Original Lease*" shall mean the State Facilities Master Lease Agreement, dated as of September 1, 1994, as heretofore supplemented and amended, between the Lessor and the Lessee.

"*Outstanding*" when used with respect to Bonds shall mean, as of the date of determination, all Bonds that have theretofore been duly authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds theretofore canceled and delivered to the Registrar or delivered to the Registrar for cancellation;

(b) Bonds that have been defeased pursuant to the Indenture; and

(c) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Indenture.

"*Permitted Encumbrances*" shall mean, as of any particular time, (a) liens for taxes, assessments and other governmental charges not then delinquent; (b) the Lease, the Indenture, any Mortgage, any sublease permitted by the Lease and any financing statements naming the Issuer or the Lessee as debtor and naming the Issuer or the Trustee as secured party now or hereafter filed to perfect the mortgage lien and security interests granted or to be granted by the Indenture, any Mortgage and the Lease; (c) the Site Leases; (d) utility, access and other easements and rights–of–way, mineral rights, restrictions and exceptions that an authorized Lessee representative certifies to the Trustee will not materially interfere with or impair the operations being conducted in or on the Leased Property (or, if no operations are being conducted therein or thereon, the operations for which the Leased Property was designed or last modified); (e) any mechanic's, laborer's, materialmen's, supplier's or vendor's lien or right in respect thereof if payment is not yet due and payable under the contract in question; (f) such minor defects, irregularities, encumbrances, easements, rights–of–way and clouds on title as normally exist with respect to properties similar in character to the Leased Property and (1) as do not, in the opinion of the authorized Lessee representative, certified in writing to the Trustee, materially impair the property affected thereby for the purpose for which it was or is to be Acquired or is or will be held by the Issuer or the Lessee or (2) are adequately insured against by a title insurance policy reasonably satisfactory to the Trustee and the Lessee; (g) any liens or encumbrances being contested as provided in the Lease; (h) any encumbrance represented by financing statements recorded or filed to perfect purchase money security interests in any or all of the Facilities; (i) any encumbrance represented by a notice of agreement filed or recorded to evidence an obligation of the Lessee entered into for the purpose of financing energy conservation or energy management equipment; and (j) any easements, liens, security interests and other encumbrances as are included in the definition of "Permitted Encumbrances" as provided in a Supplemental Lease.

"*Plans and Specifications*" shall mean plans and specifications prepared for and showing each of the Facilities, as and when they are approved by the Lessee, the same being duly certified by an authorized Lessee representative, which plans and specifications are or will be on file at the office of the Lessee described in the first paragraph of the Lease and shall be available for reasonable inspection by the Lessor, the Trustee and their duly authorized representatives.

"*Project Accounts*" shall mean any Project Account created under the Indenture with respect to the financing of Facilities through the issuance of a Series of Bonds.

"*Project Contracts*" shall mean any contract entered into by the Lessee (acting in its capacity as the Lessor's agent pursuant to the Agency Agreement), any other agent acting on behalf of the Lessor pursuant to an Agency Agreement or the Lessor regarding any Project.

"*Project Costs*" with respect to each Project shall mean those items that the Lessee, in its own capacity or in its capacity as agent to the Issuer pursuant to the Agency Agreement, any other agent or the Issuer has paid or shall be required to pay under the terms of any Project Contracts and the financing thereof and all expenses preliminary and incidental thereto incurred by the Issuer, the Lessee (as such agent) or such other agent in connection therewith and in the issuance of the Bonds, including, but not limited to, the following:

(a) obligations of the Lessee or the Issuer incurred for labor, materials and equipment (including permitted reimbursements from proceeds of the Bonds payable to the Lessee for expenditures made with respect to the Facilities) in connection with such Project;

(b) the cost of performance or other bonds and any and all types of insurance (including, but not limited to, title insurance) that may be necessary or appropriate in connection with each Project and the Leased Property;

(c) all costs of planning and designing each of the Facilities, including architectural, planning, engineering, legal and fiscal advisors' fees and the costs incurred by the Lessee or the Issuer for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising Construction, as well as for the performance of all other duties required by or consequent to the proper and timely completion of each Project;

(d) all costs of issuance related to the Series of Bonds issued with respect to such Project;

(e) payment of expenses incurred in seeking to enforce any remedy against any Contractor or subcontractor in respect of any default under a Project Contract;

(f) the cost of equipment and furnishings for each of the Facilities and all other authorized costs that are considered to be a part of the costs of each of the Facilities in accordance with generally accepted accounting principles and that will not adversely affect the excludability from gross income for federal income tax purposes of interest on the Bonds, including, but not limited to, interest accruing on the Bonds from the date of original issuance thereof and during the period required to complete each Project and for not more 12 months after the respective Completion Date of each such Project;

(g) temporary rent and other similar temporary relocation expenses (including the cost of mobile office trailer space) to be paid for the benefit of any State Body that has been or will be dispossessed from its facilities for a period of time pending completion of the Facilities in which such State Body will be located upon completion thereof;

(h) any other costs and expenses identified in a Supplemental Indenture as "Project Costs" so long as such costs and expenses are authorized under the Act;

(i) land acquisition costs related to a Project to the extent permitted by the Act;

(j) any sums required to reimburse the Issuer or the Lessee for advances made by either of them for any of the above items or for any other costs incurred and for work done by either of them that are properly chargeable to a capital account in respect of a Project, including sums required to reimburse the Issuer or the Lessee for advances for costs incurred pursuant to clause (k) below; and

(k) all other amounts that shall be required to be paid under the terms of any Project Contract so long as such amounts are authorized under the Act.

"*Project Documents*" shall mean (a) the Plans and Specifications, including change orders (if any) as permitted by the Lease; (b) a survey of each site on which any of the Facilities are located, prepared by a registered land surveyor in accordance with standard requirements for land title surveys, showing the location of all improvements, easements, encroachments and other encumbrances on each such site; (c) any necessary permits for any of the Projects, including any building permits and certificates of occupancy; (d) the Project Contracts; (e) policies of title, casualty, public liability and workers' compensation insurance, or certificates thereof, as required by the Lease with respect to the Leased Property; (f) performance and payment bonds with respect to any Construction of any of the Facilities; (g) the executed contract with an architect hired by the Lessee in connection with the preparation of Plans and Specifications and (h) any and all other documents executed by or furnished to the Lessee or a Contractor in connection with any Project.

"*Project Fund*" shall mean the fund by that name created by the Indenture.

"*Projects*" shall mean, the undertaking by the Issuer, of the direction of the Lessee, of the Acquisition and Construction of any Facilities as authorized by the Act and pursuant to the Lease.

"*Property*" shall mean any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"*Redemption Fund*" shall mean the fund by that name created by the Indenture.

"*Regular Record Date*" shall mean, with respect to any Bond Interest Payment Date for Bonds that are not Variable Rate Bonds, the first day of the month in which such Bond Interest Payment Date occurs. For Variable Rate Bonds, "Regular Record Date" shall have the meaning given thereto in the Supplemental Indenture authorizing such Variable Rate Bonds.

"*Renewal Term*" shall mean each of the additional and consecutive one year renewal terms for which the Lessee at its option may extend the term of the Lease after the Initial Term.

"*Rentals*" shall mean the total amount of the Base Rentals and the Additional Rentals payable during the initial term and each Renewal Term under the Lease.

"*Revenues*" shall mean (a) the Option Price, if paid, and any portion of the Option Price (if paid) with respect to separate Facilities; (b) all Net Proceeds, if any, of casualty insurance (including any moneys derived from the Risk Management Fund or any self–insurance program), title insurance, performance bonds, condemnation awards and awards resulting from defaults under Project Contracts (including amounts realized as liquidated damages) in connection with the Projects, not applied to the repair, restoration, modification, improvement or replacement of the Leased Property; (c) all Net Proceeds, if any, derived from any sale of the Leased Property pursuant to a foreclosure pursuant to the Indenture or any of the Mortgages and reletting or sale of the Leased Property thereafter pursuant to the Indenture or any of the Mortgages or any other proceeds realized upon the exercise of any other remedies under the Indenture or under any of the Mortgages; (d) the Base Rentals; (e) any portion of the proceeds of sale of the Bonds deposited into the Bond Fund or the Capitalized Interest Fund to pay accrued interest or capitalized interest on Bonds; (f) any earnings on moneys on deposit in the Bond Fund and the Capitalized Interest Fund to the extent such earnings are available as provided in the Indenture for application for the purposes for which such funds have been or will be established under the Indenture; (g) all other revenues derived from the Lease, except Additional Rentals; and (h) any other moneys to which the Trustee may be entitled for the benefit of the Owners of the Bonds, including, but not limited to, any amounts to be paid into the Bond Fund pursuant to the Lease from rentals or other payments by permitted sublessees, assignees and transferees.

"*Risk Management Fund*" shall mean the Risk Management Fund of the State, established pursuant to Section 63A–4–201 of the Utah Code.

"*Series*" shall mean all of the Bonds designated as being of the same Series authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefor pursuant to the Indenture.

"*Site Leases*" shall mean any lease pursuant to which the State leases a State–Owned Site to the Issuer for the purpose of a Project.

"*Special Record Date*" shall mean a special date fixed to determine the names and addresses of Owners of Bonds for purposes of paying interest on a special interest payment date for the payment of defaulted interest, all as provided in the Indenture.

"*State*" shall mean the State of Utah.

"*State Bodies*" shall mean "state bodies" as such term is defined in the Act, including Section 63B–1–303 thereof, as amended from time to time.

"*State–Owned Site*" shall mean any parcel of land on which Facilities are to be Acquired or Constructed that is owned by the State, was not acquired by the State with the proceeds of any Bonds issued pursuant to the Indenture and is leased to the Issuer for the purpose of a Project.

"*Supplemental Indenture*" shall mean any supplement or amendment to the Indenture that has been duly entered into between the Issuer and the Trustee, but only if and to the extent that such Supplemental Indenture is entered into in accordance with the provisions of the Indenture.

"*Supplemental Lease*" shall mean any supplement or amendment to the Lease that has been duly entered into by the Lessor and the Lessee, but only if and to the extent that such Supplemental Lease is entered into in accordance with the provisions of the Lease and the Indenture.

"*Tax Certificate*" shall mean, with respect to each Series of Bonds, any agreement or certificate of the Issuer and the Lessee that the Issuer and the Lessee may execute in order to establish and assure the excludability from gross income for federal income tax purposes of interest on the Bonds.

"*Term of the Lease*" or "*term of the Lease*" with respect to the possessory interest of the Lessee shall mean the initial term and any Renewal Terms as to which the Lessee exercises its option to renew the term of the Lease as provided in the Lease, subject to the provisions hereof concerning termination of certain of the Lessee's obligations under the Lease.

"*Trust Estate*" shall mean the properties, rights, interests and privileges (a) described in the Granting Clauses of the Indenture and to be described in the Granting Clauses of each Supplemental Indenture or (b) subject to the lien of a Mortgage.

"*Trustee*" shall mean Wells Fargo Bank, N.A., of Salt Lake City, Utah (as successor in interest to First Security Bank of Utah, N.A.), and its successors and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at the time serving as successor trustee under the Indenture.

"*Utah Code*" shall mean the Utah Code Annotated 1953, as amended.

"*Variable Rate Bonds*" shall mean, as of any date of calculation, any Bonds the terms of which on such date of calculation are such that interest thereon for any future period of time is expressed to be calculated for a period or at a rate that is not susceptible of precise determination for any future period of time; *provided, however,* that the term "Variable Rate Bonds" shall not apply to any period after the method for calculating interest on the Bonds has been converted to a fixed rate to maturity as provided in the applicable Supplemental Indenture.

"*Variable Rate Rentals*" shall mean the interest component of Base Rentals that is to be calculated for a period of time or at a rate that, as of any date of calculation, is not susceptible of precise determination for any future period of time; *provided, however,* that the term "Variable Rate Rentals" shall not apply to any period after the method for calculating the interest component of Base Rentals has been converted to a fixed rate to maturity as provided in the applicable Supplemental Lease.

THE INDENTURE

Additional Bonds

At any time while there is no Event of Default under the Indenture or the Lease and so long as no Event of Nonappropriation has occurred and is then continuing, Additional Bonds may be issued pursuant to a Supplemental Indenture for the purposes specified in the Indenture and the Lease. All Additional Bonds shall be secured by the lien of the Indenture and the Mortgages and rank *pari passu* with the Bonds then Outstanding.

Prior to the delivery on original issuance by the Trustee of each Series of such Additional Bonds, there shall be or have been delivered to the Trustee, among other items required by the Indenture, the following:

(a) a written opinion of bond counsel to the effect that the issuance of such Series of Additional Bonds will not adversely affect the excludability from gross income for federal income tax purposes of interest on any Bonds then Outstanding;

(b) a date–down endorsement to each ALTA mortgage title insurance policy, and if required by the Lessee, an ALTA leasehold polity which complies with Section 212(d)(vi) of the Indenture or a new ALTA mortgagee title insurance policy with comprehensive endorsement, which endorsement or new policy shall insure to the date of issuance of such Series of Additional Bonds and the recording of the Mortgage, if any, relating to such Additional Bonds the continuing validity of the lien thereof, as a first and prior lien on the premises thereby secured, subject only to Permitted Encumbrances, and which endorsement shall establish the amount of title insurance coverage thereunder as an amount equal to the principal amount of the Additional Bonds used to finance a particular Project plus the principal amount of any such Bonds (other than such Series of Additional Bonds) outstanding as of the date of issuance of such endorsement, and insuring that the title to the Additional Facilities to be financed with the proceeds of the sale of such Series of Additional Bonds is vested in the Issuer, title to the leasehold estate under the Lease is vested in the Lessee and, if such is the case, title to the leasehold estate under any Site Lease executed in connection with such Series of Additional Bonds is vested in the Issuer, subject to any Permitted Encumbrances, and naming the Trustee as an insured; *provided, however*, in the event that the property upon which Additional Projects are to be located has not been acquired at or prior to the time of issuance of the Additional Bonds, the Supplemental Lease or Supplemental Indenture relating to such Additional Bonds shall require that such endorsement or additional title policy with respect to such property be delivered at the time of or prior to any disbursements being made from the Project Fund with respect to such portion of the Project; and

(iii) written evidence from each of the appropriate rating agencies to the effect that the issuance of the Series of Additional Bonds will not by itself result in a reduction of withdrawal of the rating or ratings then in effect with respect to the Outstanding Bonds.

Notwithstanding any other provisions of the Indenture to the contrary, the Issuer may issue Additional Bonds to finance or refinance Additional Facilities or portions thereof pursuant to the Indenture without subjecting such Additional Facilities or portions thereof to any additional Mortgages or supplements to existing Mortgages and without delivering a copy of the Mortgage to the Trustee, if the Issuer submits to the Trustee a certificate stating and demonstrating that (a) the Additional Facilities or portions thereof to be finance or refinanced are of such a nature that would make an additional Mortgage or supplement to an existing Mortgage impractical and (b) the value to the Lessee of the Facilities and Additional Facilities or portions thereof that are subject to the Mortgage is sufficient to secure all Outstanding Bonds and the Additional Bonds to be issued.

Notwithstanding any other provisions of the Indenture to the contrary, the Issuer may issue Additional Bonds to finance or refinance Additional Facilities or portions thereof pursuant to the Indenture without providing title insurance therefore, if the Issuer submits to the Trustee a certificate stating that such Additional Facilities or portions thereof to be financed or refinanced are of such a nature that obtaining title insurance thereon is impractical or impossible.

General Covenants

Rental Rates

The Issuer covenants to charge Base Rentals and Additional Rentals under the Lease sufficient in amount for such purposes and to pay any other obligations under the Lease that are to be paid from Base Rentals or Additional Rentals.

Payment of Bonds

The Issuer covenants in the Indenture to pay promptly the principal of (whether at maturity, by operation of mandatory sinking fund redemptions, by acceleration, call for redemption or otherwise), and premium, if any, and interest on, the Bonds at the places, on the dates and in the manner provided in the Indenture and in every Bond issued under the Indenture according to the true intent and meaning thereof; *provided, however,* that such obligations are not general obligations of the Issuer but are limited obligations payable solely from the Revenues.

Performance of Issuer's Covenants; Authority

The Issuer covenants in the Indenture to faithfully observe and perform at all times any and all covenants, conditions and agreements on its part contained in the Indenture, in any and every Bond executed, authenticated and delivered under the Indenture and in all proceedings of the Issuer pertaining thereto; *provided, however,* that the liability of the Issuer under any such covenant, condition or agreement for any breach or default by the Issuer thereof or thereunder shall be limited solely to the Revenues.

Payment of Taxes, Charges, Insurance, etc.

The Issuer covenants in the Indenture to cause the Lessee pursuant to the Lease to maintain certain insurance and pay all lawful taxes, assessments and charges at any time levied or assessed against or with respect to the Leased Property or the Revenues, or any part thereof, that might impair or prejudice the lien and priority of the Indenture or any of the Mortgages; *provided, however,* that nothing contained in the Indenture shall require the maintenance of insurance or payment of any such taxes, assessments or charges if the same are not required to be maintained or paid under the provisions of the Lease.

Maintenance and Repair of and Alterations, Additions and Improvements to Leased Property

Pursuant to the provisions of the Lease, the Lessee has agreed at its own expense to maintain, manage and operate the Leased Property in good order, condition and repair, and the Lessee may, at its own expense, make from time to time additions, modifications or improvements to the Leased Property under the terms and conditions set forth in the Lease and as provided in the Indenture.

Recordation of the Lease, Indenture, Mortgages, Site Leases and Security Instruments

The Issuer covenants to cause the Indenture, each Mortgage, the Lease, each Site Lease and all supplements and amendments thereto as well as such other security instruments, financing statements, continuation statements and all supplements and amendments thereto and other instruments as may be required from time to time to be kept recorded and filed in such manner and in such places as may be required by law in order fully to preserve and protect the security of the Owners of the Bonds and the rights of the Trustee under the Indenture and to perfect the lien of, and the security interest created by, the Indenture and each Mortgage.

Revenues And Funds

Source of Payment of Bonds

The Base Rentals that the Lessee is required to pay in accordance with the Lease are to be remitted directly to the Trustee for the account of the Issuer and deposited into the Bond Fund and the Redemption Fund as provided in the Lease. Such payments, sufficient in amount to insure the prompt payment of the principal of (including mandatory sinking fund redemptions) and premium, if any, and interest on, the Bonds (so long as the Lessee appropriates sufficient moneys annually to pay Rentals accruing during each succeeding Renewal Term under the Lease) are pledged to secure the payment of such principal of, and premium, if any, and interest on, the Bonds. Said pledge shall constitute a first and exclusive lien on the Base Rentals provided in the Lease for the payment of the principal of, and premium, if any, and interest on, the Bonds in accordance with the terms thereof and of the Indenture and otherwise for the benefit of the Interests Secured by the Indenture.

Funds and Accounts

The Indenture establishes the following irrevocable trust funds, among others, all of which are to be held by the Trustee:

(a) the Bond Fund;

(a) the Capitalized Interest Fund, which includes certain Capitalized Interest Accounts;

(c) the Project Fund which includes separate accounts for each Project;

(d) the Redemption Fund; and

(e) the Insurance Fund.

Payments into and Use of Moneys in Bond Fund

There shall be deposited into the Bond Fund, as and when received, the following:

(a) any amount in a Capitalized Interest Account to be paid into the Bond Fund in accordance with the applicable Supplemental Indenture;

(b) any amount in the Project Fund (including any Project Account therein) to be paid into the Bond Fund in accordance with the Indenture;

(c) all Base Rentals;

(d) any other amount to be deposited therein pursuant to any other provisions of the Indenture, or any provisions of a Supplemental Indenture; and

(e) all other moneys received by the Trustee under and pursuant to any of the provisions of the Lease or otherwise that are required or that are accompanied by directions that such moneys are to be paid into the Bond Fund.

Moneys in the Bond Fund are to be used solely for the payment of the principal of and interest on the Bonds, including mandatory sinking fund redemption payments.

Payments into and Disbursements from Project Fund

The proceeds of a Series of Bonds deposited into a Project Account within the Project Fund are to be used to pay the Project Costs being financed by such Series of Bonds. So long as no Event of Nonappropriation of Event of Default has occurred and is continuing and the Lessee's right (as agent of the Issuer under the Agency Agreement) or other agent to control the Projects has not otherwise been terminated pursuant to the Lease or the Agency Agreement, the Trustee is authorized and directed under the Indenture to make payments as requested by the Lessee from each Project Account to pay or reimburse (to the extent authorized) the Project Costs relating to each of the Projects, upon receipt of certain documents, certificates and opinions specified in the Indenture.

In the event that any of the 2006 Projects are not completed timely, or an Event of Nonappropriation or Event of Default shall have occurred and be continuing, the Trustee shall take such actions with respect to moneys then remaining in the applicable Project Account and may either complete such 2006 Project or otherwise disburse such moneys pursuant to the provisions of the Lease and the Indenture as the Trustee may deem appropriate in the best interests of the Owners of the 2006A Bonds.

Completion of the Projects; Delivery of Completion Certificate

The completion of each Project under the Lease, the payment or provision made for payment of all Project Costs under the Lease related to each such Project and the acceptance of the portion of the Leased Property represented by such Project by the Lessee shall be evidenced by the filing with the Trustee of the Completion Certificate of an authorized Lessee representative stating that, to the best of the Lessee's knowledge based upon the representations of the engineers, vendors, suppliers, contractors, architects and other consultants for such Project and except for any amounts estimated by such authorized Lessee representative to be necessary for payment of any Project Costs not then due and payable, such Project has been completed and the portion of the Leased Property represented by such Project has been accepted by the Lessee. Immediately after the date of delivery of the Completion Certificate for a Project and unless otherwise provided in a Supplemental Indenture with respect to a Series of Additional Bonds, any moneys remaining in the related Project Account (except any amount that the Lessee shall have directed the Trustee to retain for any Project Costs not then due and payable and except as otherwise may be required by any Tax Certificate) shall without further authorization be transferred by the Trustee for deposit into the Bond Fund and applied by the Trustee for the purposes for which such Fund has been established under the Indenture.

Deposit Into and Use of Moneys in Redemption Fund

All moneys to be used for redemption of Bonds (other than mandatory sinking fund redemptions) shall be deposited into the Redemption Fund.

Use of Moneys in Insurance Fund

All Net Proceeds of performance or payment bonds, proceeds (including any moneys derived from the Risk Management Fund and any self–insurance program) from policies of insurance required by the Lease or condemnation awards, or any proceeds resulting from a default under a Project Contract (except liquidated damages) or any other contract relating to the Leased Property that are received by the Trustee shall be deposited into the Insurance Fund. An authorized Lessee representative shall file an Officer's Certificate with Trustee, within 90 days after the occurrence of the event giving rise to such Net Proceeds, directing the application and disbursement of such funds, subject to any applicable provisions of any Tax Certificate, as follows:

(a) to the prompt repair, replacement, restoration, modification or improvement of the damaged or destroyed portion of the Leased Property if such Officer's Certificate states that such Net Proceeds, together with any other funds lawfully available to the Lessee for such purpose, are sufficient to pay in full the costs of such repair, replacement, restoration, modification or improvement; or

(b) to the redemption, in whole or in part, of the principal of the Bonds in accordance with the Indenture and the Lease.

Liquidated damages resulting from a default by a Contractor to complete a Project in a timely fashion under the Construction Contract are to be deposited into the Bond Fund.

Moneys To Be Held In Trust

All moneys required to be deposited with or paid to the Trustee for account to any fund referred to in any provision of the Indenture shall be held by the Trustee in trust in accordance with the terms of the Indenture.

Permitted Investments

Subject to compliance with the terms and provisions of any Tax Certificate, any moneys held as part of the Project Accounts, the Insurance Fund or any accounts therein or in any other funds or accounts under the Indenture (except the Bond Fund, the Redemption Fund and the Capitalized Interest Fund) and any moneys held as part of the 2006A Cost of Issuance Fund, shall be invested and reinvested by the Trustee to the extent permitted by law, at the written direction of the Utah State Treasurer for and on behalf of the Lessee, but only so long as no Event of Default has occurred and is continuing (or by the Trustee after the occurrence and during the continuance of any such Event of Default), in any Investment Securities maturing not later than such times as shall be necessary to provide moneys when needed for payments to be made from each such Fund or other fund or account.

Subject to compliance with the terms and provisions of any Tax Certificate, any moneys held as part of the Bond Fund, the Redemption Fund and the Capitalized Interest Fund, unless otherwise provided in a Supplemental Indenture, shall be invested and reinvested by the Trustee to the extent permitted by law, at the written direction of the Utah State Treasurer for and on behalf of the Lessee, but only so long as no Event of Default has occurred and is continuing (or by the Trustee after the occurrence and during the continuance of any such Event of Default), only in Government Obligations maturing at such times and in such amounts as shall be necessary to pay principal of and interest on the Bonds as such become due and payable or, with respect to moneys held as part of the Bond Fund, invested in (a) a money market mutual fund that invests only in Government Obligations or (b) the Utah State Treasurer's Investment Pool established pursuant to Title 51, Chapter 7 of the Utah Code.

All such investments shall at all times be a part of the fund from whence the moneys used to acquire such investments shall have come. In computing the amount in any fund or account under the Indenture, investments shall be valued at the market price thereof at least annually by the Trustee prior to May 1 of each year. All income and profits on such investments shall be credited to, and all losses thereon shall be charged against, such funds and accounts equal to each fund's or account's respective proportionate contribution thereto. Any such investments shall be made by the Trustee in such manner as to assure the availability of moneys to make disbursements from each Project Account on the anticipated dates of disbursement for the Project to which such Project Account relates and to make payments of the principal of, and premium, if any, and interest on, the Bonds at the times and in the amounts as provided therein.

Discharge Of Lien

If the Issuer shall pay or cause to be paid, or there shall otherwise be paid or provision for the unconditional payment made from any source, to or for the Owners of the Bonds all principal of, and premium, if any, and interest on, the Bonds at the times and in the manner stipulated therein and in the Indenture, and if the Issuer shall not then be in default in any of the other covenants and promises in the Bonds and in the Indenture expressed or implied as to be kept, performed and observed by it or on its part, and if the Lessee shall not then be in default in any of its covenants and promises in the Lease expressed or implied as to be kept, performed and observed by it or on its part, and if the Issuer shall pay or cause to be paid to the Trustee all sums of money due or to become due according to the provisions of the Indenture, then all rights and obligations of the Issuer, the Lessee and the Trustee under the Indenture, the Lease and the Site Leases shall terminate and be of no further force and effect and the Trustee shall cancel and discharge the Indenture, the Mortgages, the Lease and the Site Leases and execute and deliver to the Issuer and the Lessee such instruments in writing as shall be requisite to cancel and discharge the lien of the Indenture, and reconvey, release, assign and deliver unto the Issuer and the Lessee any and all the estate, right, title and interest in and to any property conveyed, mortgaged, assigned or pledged to the Trustee or otherwise subject to the lien of the Indenture or the Mortgages, except (a) amounts in the Bond Fund required to be paid to the Lessee pursuant to the Indenture, (b) moneys or securities held by the Trustee for the payment of the principal of, or premium, if any, or interest on, the Bonds and (c) any moneys to be paid pursuant to any Tax Certificate.

Any Bond shall be deemed to be paid, or any portion thereof shall be deemed to be paid, within the meaning of the Indenture when payment of the principal of, and premium, if any, and interest on, the Bonds (or such portion thereof) either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided by irrevocably depositing with or for the benefit of the Trustee, in trust and irrevocably set aside exclusively for such payment, (1) moneys sufficient to make such payment or (2) Government Obligations (provided that such deposit does not, in the opinion of bond counsel, adversely affect the excludability from gross income for federal income tax purposes of interest on any of the Bonds or cause the Lease or any of the Bonds to be classified as arbitrage bonds within the meaning of Section 148(a) of the Code), which are not callable at the option of the issuer thereof prior to their maturity and which mature and bear interest in such amounts and at such times as will provide such amounts and at such times as will insure the availability of sufficient moneys to make such payment on and prior to the redemption date or maturity date, as the case may be. If the Bonds are not to be paid on the next succeeding Bond Payment Date, proper notice of redemption shall have been previously mailed as provided in the Indenture or the Issuer shall have given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to mail notice of redemption as provided in the Indenture. At such time as a Bond shall be deemed to be paid, it shall no longer be secured by or entitled to the benefits of the Indenture or the Mortgages, except for the purposes of registration and exchange of Bonds and of any such payment from such moneys or Government Obligations.

Possession, Use And Partial Release Of Leased Property

Subordination of Lease to the Indenture and the Mortgages

As provided in the Lease, the Lease and the Lessee's interest in the Leased Property and its interest as lessee under the Lease shall at all times be subject to the lien of the Indenture and the Mortgages; *provided, however,* that so long as no Event of Default under the Indenture or an Event of Nonappropriation has occurred and is then continuing, the Lease shall remain in full force and effect notwithstanding such subordination, and the Lessee shall not be disturbed by the Issuer or the Trustee in its possession, use and enjoyment of the Leased Property during the term of the Lease or in the enjoyment of its rights under the Lease.

Release of Sites

The Issuer and the Lessee have reserved the right in the Lease to withdraw certain portions of the sites on which any of the Facilities are located from the terms of the Lease and the lien of the Indenture upon compliance with the terms and conditions of the Lease. The Trustee shall release from the lien of the Indenture any such portions of the sites upon compliance with the provisions of the Lease.

Granting or Release of Easements

In accordance with the Lease, the Lessee may grant or release easements and take other action upon compliance with the terms and conditions of the Lease. The Trustee shall execute or confirm the grants or releases of easements, licenses, rights–of–way and other rights and privileges permitted by the Lease upon compliance with the provisions of the Lease.

Events Of Default And Remedies

Events of Default Defined

The occurrence of any of the following events shall constitute an "Event of Default" under the Indenture:

(a) Default in the payment of the principal of or premium, if any, on any Bond when the same shall become due and payable, whether at the stated maturity date thereof, by acceleration or call for redemption or otherwise;

(b) Default in the payment of any interest on any Bond when the same shall become due and payable;

(c) The occurrence of any Event of Nonappropriation or Event of Default as each such term is defined in the Lease or the occurrence of an event of default under any Mortgage; or

(d) Subject to the provisions of the Indenture, default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Issuer in the Indenture or in the Bonds contained and the continuance thereof for a period of 60 days after written notice to the Issuer and the Lessee given by the Trustee or to the Trustee, the Issuer and the Lessee by the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding.

Notice of Certain Defaults; Opportunity of Lessee to Cure Certain Defaults

Anything in the Indenture to the contrary notwithstanding, no default described in paragraph (d) under "Events of Default Defined" above will constitute an Event of Default until actual notice of such default by registered or certified mail has been given by the Trustee or by the Owners of not less than a majority in aggregate principal amount of all Bonds then Outstanding to the Issuer and the Lessee, and the Lessee has had 30 days after receipt of such notice to correct said default or cause said default to be corrected, and has not corrected said default or caused said default to be corrected, or if said default be such that it cannot be corrected within the applicable period, it will not constitute an Event of Default if corrective action is instituted by the Lessee within the applicable period and diligently pursued until the default is corrected.

Remedies Upon Default

Upon the occurrence and continuance of any Event of Default, the Trustee shall have all the rights and remedies with respect to the Trust Estate as the Issuer, as lessor, has against the Leased Property and the Lessee under the pertinent provisions of the Lease and subject to the restrictions and limitations therein provided. Upon the occurrence and continuance of any Event of Default, the Trustee may, and at the written request of Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall, declare the principal amount of the Bonds then Outstanding to be immediately due and payable, whereupon such principal amount shall, without further action, become and be immediately due and payable, anything in the Indenture, any Mortgage or in the Bonds to the contrary notwithstanding; *provided, however,* that no such acceleration shall change or otherwise affect the Lessee's obligation under the Lease to pay Rentals only during the term of the Lease and in the amounts and at the times as provided in the Lease. The Trustee shall give notice of such declaration of acceleration to the Lessee and the Issuer and, upon receipt of indemnity satisfactory to it, shall give notice thereof by Mail to Owners of all Bonds then Outstanding.

Upon the occurrence and continuance of any Event of Default specified in paragraphs (a), (b), or (c) under the heading "Events of Default Defined" above, the Trustee shall, without any action on the part of the Owners of the Bonds, or upon the occurrence and continuance of an Event of Default specified in paragraph (d) under the heading "Events of Default Defined" above, and at the written request of Owners of not less than 25% in aggregate principal amount of Bonds then Outstanding the Trustee shall, give notice to the Lessee to vacate and surrender the Leased Property immediately as provided in the Lease, with or without terminating the term of the Lease thereunder except as to the Lessee's possessory interests in the Leased Property under the Lease. The Trustee may, and at the written request of Owners of not less than 25% in aggregate principal amount of Bonds then Outstanding shall, commence an action to foreclose the lien of the Indenture as a mortgage in the manner provided in the Indenture and as permitted by law against the Trust Estate, commence an action or actions to foreclose any Mortgage or Mortgages in the manner therein provided and as permitted by law against the Issuer's right, title and interest in the Leased Property in such manner and order as the Trustee may determine, and take one or any combination of the following additional remedial steps:

(a) The Trustee may terminate the Lease or the Lessee's possessory rights thereunder (without otherwise terminating the Lease), re–enter the Leased Property and eject all parties in possession thereof therefrom and relet the Leased Property (subject to the Site Leases), all as provided in the Lease;

(b) The Trustee may, subject to compliance with the applicable provisions of the "one action rule" set forth in Title 78, Chapter 37 of the Utah Code, recover from the Lessee:

(1) the portion of Base Rentals and Additional Rentals that are or would otherwise have been payable under the Lease during any period in which the Lessee continues to use, occupy and operate the Leased Property or any portion thereof; and

(2) Base Rentals and Additional Rentals that are or would otherwise have been payable by the Lessee under the Lease during the remainder, after the Lessee vacates and surrenders the Leased Property, of the Renewal Term in which such Event of Default occurs for which Term the Lessee had lawfully appropriated moneys for purposes of paying such Base Rentals and Additional Rentals; *provided, however,* that if the Trustee does not proceed to sell the Leased Property reasonably promptly after such Event of Default, the Trustee shall be obligated to the Lessee to use the Trustee's best efforts to lease or sublease the Leased Property for the remainder of such Renewal Term, and the Net Proceeds of such leasing and subleasing shall be offset against the amount recoverable from the Lessee as described under this subparagraph (2);

(c) Either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court and without regard to the adequacy of its security, enter upon and take possession of the Leased Property, or any part thereof, in its own name or in the name of the Issuer, and do any acts that the Trustee deems necessary or desirable to preserve the value, marketability or rentability of the Leased Property, or part thereof or interest or space therein, increase the income therefrom or protect the security of the Indenture and, with or without taking possession of the Leased Property, sue for or otherwise collect the rents, issues and profits thereof, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection, including attorneys' fees, upon any obligations secured by the Indenture, all in such order as the Trustee may determine;

(d) In conformity with the Indenture, exercise all rights of the Issuer in its capacity as lessor under the Lease, including the right to lease all or any part of the Leased Property (subject to the Site Leases) in the name and for the account of the Issuer, to collect, receive and sequester the rents, revenues, issues, earnings, income, products and profits therefrom, and out of the same and any moneys received from any receiver of any part thereof pay, and/or set up proper reserves for the payment of, all proper costs and expenses of so taking, holding and managing the same, any taxes and assessments and other charges prior to the lien of the Indenture that the Trustee may deem it wise to pay and all expenses and costs of repairs and improvements to the Leased Property and apply the remainder of the moneys so received in accordance with the Indenture;

(e) Exercise any or all of the remedies available to a secured party under the Utah Uniform Commercial Code, as then in effect, with respect to property subject to the Indenture or any Mortgage that is covered by such Code; and

(f) Exercise the option provided to the Trustee (as assignee of the Issuer, in its capacity as ground lessee under the Site Leases, pursuant to the Indenture) with respect to any Site Lease to purchase the Site that is the subject of such Site Lease.

A judgment requiring a payment of money may be entered against the Lessee by reason of an Event of Default under the Indenture only as to the liabilities described in paragraph (b) above. Notwithstanding anything set forth in the Lease, the Mortgages or the Indenture to the contrary, any Event of Default consisting of a failure by the Lessee to vacate or surrender the Leased Property by the expiration of the Renewal Term during which an Event of Nonappropriation occurs shall not result in any liability for Base Rentals or Additional Rentals allocable to any period other than the period in which the Lessee continues to use, occupy and operate the Leased Property or any portion thereof and to that extent only.

Other Remedies

Upon the occurrence of an Event of Default, the Trustee may, as an alternative, either after entry or without entry, pursue any available remedy by suit at law or equity to enforce the payment of the principal of, and premium, if any, and interest on, the Bonds then Outstanding, including, without limitation, foreclosure and mandamus and an action for specific performance of any agreement contained in the Indenture.

Upon the occurrence of an Event of Default, if requested to do so by the Owners of at least 25% in aggregate principal amount of Bonds then Outstanding and if indemnified as provided in the Indenture, the Trustee shall exercise such one or more of the rights and powers conferred by the Indenture as the Trustee, upon being advised by counsel, shall deem most expedient in the interests of the Owners; provided that the obligation of the Trustee to accelerate the principal of the Bonds shall be subject to the provisions set forth under the heading "Remedies Upon Default" above.

Remedies Not Exclusive

No remedy conferred in the Indenture upon or reserved to the Trustee is intended to be exclusive of any other remedy in the Indenture or by law provided or permitted, but each such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute. Every power or remedy given by the Indenture, any Mortgage, the Lease or any Site Lease, or to which the Trustee may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by the Trustee, and the Trustee may pursue inconsistent remedies.

Limitation on Remedies

Notwithstanding anything in the Indenture to the contrary, no deficiency judgment upon foreclosure or exercise of other remedies as provided in the Indenture may be entered against the Issuer or the State (as Lessee or otherwise) or any of its political subdivisions, *provided* that the Lessee shall remain liable to pay Rentals for any period that it uses, occupies and operates the Leased Property, and the Trustee shall be entitled to recover such Rentals from the Lessee as provided in the Indenture.

No breach of any covenant or agreement in the Indenture or the Lease shall impose any general obligation or liability upon, nor a charge against the general credit or taxing power of, the State (in its capacity as Lessee or otherwise) or any of its political subdivisions.

Waivers of Events of Default

The Trustee may in its discretion waive any Event of Default under the Indenture and its consequences and rescind any declaration of maturity of principal of and interest on the Bonds, and shall do so upon the written request of the Owners of (a) more than 50% in aggregate principal amount of all Bonds the Outstanding in respect of which a default exists in the payment of principal and/or premium, if any and/or interest, or (b) more than 50% in aggregate principal amount of all Bonds then Outstanding, subject to the provisions of the Indenture.

Rights and Remedies of Owners of the Bonds

Except in the case of a failure of the Trustee to accelerate payment of principal of the Bonds pursuant to the provisions of the Indenture described under the heading “Remedies Upon Default” above, no Owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust thereof or the enforcement of any Mortgage or for the appointment of a receiver or any other remedy under the Indenture or under any Mortgage, unless (a) a default has occurred of which the Trustee has been notified, or of which it is deemed to have notice, (b) such default has become an Event of Default and the Owners of at least 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered it reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, (c) such Owners have offered to the Trustee indemnity as provided for in the Indenture and (d) the Trustee thereafter has failed or refused to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name or in the name of such Owners. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or the Mortgages or for the appointment of a receiver or any other proceedings under the Indenture; provided that such direction shall not be otherwise than in accordance with the provisions of law, the Indenture and any applicable Mortgage.

Limitations Of Liability

Limitations of Liability of Issuer

The Trustee and the Owners agree to look solely to the Trust Estate, including the Leased Property and the Revenues, for the payment of the obligations of the Issuer under the Indenture. However, nothing contained in the Indenture shall limit, restrict or impair the rights of the Owners of the Bonds or the Trustee to exercise all rights and remedies provided under the Indenture, the Mortgages, the Lease or any Site Lease or otherwise realize upon the Trust Estate and the Trustee may join the Issuer and the Lessee and their officers, trustees, agents and employees, in their capacities as officers, trustees, agents and employees of the Issuer or the Lessee, as defendants in any legal action it undertakes to enforce its rights and remedies under the Indenture.

Limitations of Liability of Lessee

Nothing in the Indenture shall be construed to require the Lessee to appropriate any money for the performance of any obligation under the Indenture or under the Lease. No provision of the Indenture shall be construed or interpreted as creating a general obligation or other indebtedness of the State (in its capacity as Lessee or otherwise) or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation. Neither the execution, delivery and performance of the Lease nor the issuance of the Bonds directly or indirectly obligates the Lessee to make any payments under the Indenture or under the Lease beyond those appropriated for the Lessee’s then current Fiscal Year or to pay the Option Price or any portion thereof.

Supplemental Indentures; Waivers

Supplemental Indentures Without Consent of the Owners of the Bonds

The Issuer and the Trustee from time to time and at any time with the prior written consent of the Lessee, but without the consent of or notice to any Owners and subject to the restrictions contained in the Indenture, may enter into an indenture or indentures supplemental thereto and that shall thereafter form a part thereof for any one or more or all of the following purposes:

(a) to add to the covenants and agreements to be observed by, and to surrender any right or power reserved to or conferred upon, the Issuer;

(b) to subject to the lien of the Indenture additional Property and Revenues hereafter acquired by the Issuer and intended to be subjected to the lien of the Indenture and to correct and amplify the description of any Property and Revenues subject to the lien of the Indenture;

(c) to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect;

(d) to cure any ambiguity or cure, correct or supplement any provision contained in the Indenture or in any Supplemental Indenture that may be defective or inconsistent with any other provision contained in the Indenture or in any Supplemental Indenture or to make such other provisions in regards to matters or questions arising under the Indenture or any Supplemental Indenture as shall not adversely affect in a material way the interest of any Owner;

(e) to comply with any additional requirements necessary to maintain the excludability from gross income for federal income tax purposes of interest on the Bonds; or

(f) to authorize the issuance of Additional Bonds and provide the terms therefor, including such provisions as are necessary in connection with the terms required to issue Variable Rate Bonds.

Waivers and Consents by Owners; Supplemental Indentures with Owners' Consent

Upon the prior written waiver or consent of the Owners of at least 66 2/3% in aggregate principal amount of the Bonds then Outstanding, (a) the Issuer may take any action prohibited, or omit the taking of any action required, by any of the provisions of the Indenture or any Supplemental Indenture, or (b) the Issuer and the Trustee may enter into an indenture or indentures supplemental thereto for the purpose of adding, changing or eliminating any provisions of the Indenture or of any Supplemental Indenture thereto or modifying in any manner the rights and obligations of the Owners of the Bonds and the Issuer; provided that no such waiver or supplemental indenture shall (1) impair or affect the right of any Owner to receive payments or prepayments of the principal of, and premium, if any, and interest on, such Owner's Bond, as provided therein and in the Indenture, without the consent of such Owner, (2) permit the creation of any lien with respect to any of the Trust Estate, without the consent of the Owners of all the Bonds at the time Outstanding, (3) effect the deprivation of the Owner of any Bond of the benefit of the liens of the Indenture or any Mortgage upon all or any part of the Trust Estate without the consent of such Owner, (4) reduce the aforesaid percentage of the aggregate principal amount of Bonds, the Owners of which are required to consent to any such waiver or supplemental indenture pursuant to the Indenture, without the consent of the Owners of all of the Bonds at the time Outstanding or (5) modify the rights, duties or immunities of the Trustee without the consent of the Trustee and the Owners of all of the Bonds at the time Outstanding.

Amendment Of Lease And Site Leases

Amendments to Lease or Site Leases Not Requiring Consent of Owners

The Issuer and the Lessee may, with the prior written consent of the Trustee, but without the consent of or notice to the Owners, consent to any amendment, change or modification of the Lease or any Site Lease as may be required (a) by the provisions of the Lease, any Site Lease or the Indenture; (b) for the purpose of curing any ambiguity or formal defect or omission in the Lease or any Site Lease; (c) in order to more precisely identify the Leased Property or any portion thereof or to add additional or substituted improvements or properties acquired in accordance with the Lease, any Site Lease or the Indenture; (d) in connection with any other change in the Lease or any

Site Lease that, in the judgment of the Trustee, does not adversely affect in a material way the interests of the Trustee or any Owner; (e) for the purposes of complying with additional requirements necessary to maintain the excludability from gross income for federal income tax purposes of interest on the Bonds or (f) in connection with the issuance of Additional Bonds, including such provisions as are necessary to provide for Variable Rate Rentals.

Amendments to Lease or Site Leases Requiring Consent of Owners

Except for the amendments, changes or modifications described in the preceding paragraph, neither the Issuer nor the Trustee shall consent to any other amendment, change or modification of the Lease or any Site Lease without mailing of notice and the prior written approval or consent of the Owners of not less than 66 2/3% in aggregate principal amount of the Bonds at the time Outstanding.

THE LEASE

Term Of The Lease

Commencement of the Term of the Lease

The initial term of the Lease commenced as of September 1, 1994, and expired on June 30, 1995 (the "Initial Term"), subject to the Lessee's option to extend the term of the Lease for additional and consecutive one–year renewal terms commencing July 1, 1995, and a final renewal term commencing July 1, 2026, and ending May 16, 2027. The Lessee has exercised its option to extend the term of the Lease and is currently in the 11th Renewal Term which expires on June 30, 2006. The terms and conditions of the Lease during any Renewal Term shall be the same as the terms and conditions during the Initial Term, except that the Base Rentals will be as specified in Schedules attached to the Lease, as such Schedules may be revised as provided in the Indenture.

Each option shall be exercised automatically by the enactment into law of a State budget that appropriates and allocates to or for the benefit of the Lessee for purposes of the Lease moneys sufficient (after taking into account any moneys legally available for such purpose, including, but not limited to, such moneys as may be legally available from non–lapsing appropriations in the Fiscal Year prior to such Renewal Term) to pay the Base Rentals (using for purposes of computing any Variable Rate Rentals, a projected interest cost based upon the formula contained in the Supplemental Lease providing for such Variable Rate Rentals) and reasonably estimated Additional Rentals (calculated as provided in the Lease) for the next succeeding Renewal Term as provided in the Lease. The enactment into law of such State budget, after compliance with the procedures required by applicable law, shall automatically extend the term of the Lease for the succeeding Renewal Term without any further action required by any official, officer or employee of the Lessee or any other person.

The option to renew may not be exercised at any time during which an Event of Default or an Event of Nonappropriation (except as otherwise provided in the Lease as described under the heading "Rentals Payable—Nonappropriation" below) has occurred and is then continuing under any of the terms of the Lease; *provided, however,* that if the Event of Default complained of (money payments excepted) is of such nature that the same is curable but not within the period allowed for curing such Event of Default, then the right of the Lessee to exercise the option to renew shall not be suspended if the Lessee shall have promptly commenced within such period to comply with the provisions of the Lease that shall have been breached by it and if and so long as the Lessee shall, with diligence and continuity, proceed to cure such Event of Default.

Expiration or Termination of the Term of the Lease

The term of the Lease will expire or terminate, as appropriate, as to the Lessee's right of possession of the Leased Property as described in the next paragraph upon the first to occur of any of the following events: (a) the expiration of any Renewal Term during which there occurs an Event of Nonappropriation (which is not thereafter waived by the Trustee); (b) on the Optional Payment Date on which the deposit is made of the purchase price by the Lessee for Leased Property to be purchased pursuant to the Lease; (c) an Event of Default and a termination of the term of the Lease as to the possessory interest of the Lessee by the Trustee as provided in the Lease; (d) discharge of the Indenture as therein provided; or (e) May 16, 2027, which date constitutes the day following the last Bond Principal Payment Date of the final Renewal Term of the Lease, or such later date as all Rentals required under the Lease and the Bonds shall be paid.

The expiration or termination of the term of the Lease as to the Lessee's right of possession and use of the Leased Property as described in the preceding paragraph shall terminate all obligations of the Lessee thereunder (except to the extent that the Lessee incurred any obligation to pay Rentals from moneys theretofore appropriated and available for such purpose) and shall terminate the Lessee's rights of use, occupancy and operation of the Leased Property (except to the extent of any conveyance of the Leased Property to the Lessee purchased by the Lessee as provided in the Lease). All other terms of the Lease and the Indenture, including all obligations of the Trustee with respect to the Owners of the Bonds and the receipt and disbursement of funds, shall be continuing until the lien of the Indenture is discharged or foreclosed, as provided in the Indenture, except that all obligations of the Lessee to pay any amounts to the Owners and the Trustee under the Indenture shall thereafter be satisfied only as provided in the Indenture. The termination or expiration of the term of the Lease as to Lessee's right of possession and use shall not in itself discharge the lien of the Indenture.

Rentals Payable

Rentals Payable–General

The Lessee shall pay the Base Rentals and the Additional Rentals (but shall not be entitled to prepay or cause to be prepaid any such Base Rentals or Additional Rentals, except as otherwise expressly provided in the Lease or in a Supplemental Lease) in the amounts, at the times and in the manner set forth in the Lease, said amounts constituting in the aggregate the total of the annual Rentals payable under the Lease, as follows:

(a) *Base Rentals*. The Lessee agrees, subject to the availability of appropriations of funds to it therefor and other moneys legally available for the purpose, to pay to the Trustee for the account of the Lessee in arrears during each Renewal Term (i) the principal component of the Base Rentals payable in annual installments on May 1 of each year as set forth in the Lease and (ii) the interest component of the Base Rentals payable in installments on May 1 and November 1 of each year as set forth in the Lease. The Base Rentals shall be paid for the right to the use, occupancy and operation of the Leased Property during the term of the Lease. The Lessee agrees to pay the Base Rentals in accordance with the Base Rental Payment Schedule set forth in the Lease as it may be revised from time to time by such amounts as are necessary to reflect the redemption of the principal of Bonds (other than mandatory sinking fund redemptions) or to pay the principal of and interest on Additional Bonds.

(b) *Additional Rentals.* In addition to the Base Rentals, and as part of the total Rentals during the term of the Lease, the Lessee shall pay on a timely basis, but only from legally available funds appropriated for such purposes or otherwise legally available therefor, to the parties entitled thereto an amount or amounts (the "Additional Rentals") for each Renewal Term, equivalent to the sum of the following:

(i) the annual fee of the Trustee for the ordinary services of the Trustee rendered and its ordinary expenses incurred under the Indenture, any Mortgage and any Tax Certificate;

(ii) the reasonable fees and charges of the Trustee, any paying agent and any registrar appointed under the Indenture with respect to the Bonds for acting as trustee, paying agent and registrar as provided in the Indenture;

(iii) the reasonable fees and charges of the Trustee for extraordinary services rendered and extraordinary expenses incurred by it as Trustee under the Indenture;

(iv) the reasonable fees and out–of–pocket expenses of the Lessor relating to the Leased Property not otherwise required to be paid by the Lessee under the terms of the Lease;

(v) the costs of maintenance, operation and repair with respect to the Leased Property and utility charges as required under the Lease and any costs to repair, rebuild or replace the Leased Property as provided in the Lease;

(vi) the costs of casualty, public liability, property damage and workers' compensation insurance as required under to the Lease and the costs related to any self–insurance carried or required to be carried as provided in the Lease;

(vii) the costs of taxes and governmental charges and assessments as required under the Lease;

(viii) an amount equal to any franchise, succession, capital levy or transfer tax, or any income, excess profits or revenue tax, or any other tax, assessment, charge or levy (however denominated), if any shall ever become due, levied, assessed or imposed by the State or any political subdivision thereof upon the Base Rentals payable under the Lease or the Option Price (if paid) or upon the Leased Property, any portion thereof or any of the Revenues;

(ix) any amount of interest required to be paid (1) on any of the foregoing items as a result of the Lessee's failure to pay any such items when due or (2) pursuant to the Lease; and

(x) any additional payment required to be made pursuant to any Tax Certificate to maintain the excludability from gross income for federal income tax purposes of interest on any Bonds, together with an amount equal to all costs and expenses incurred by the Issuer to calculate or cause to be calculated the amount of any required payment, or otherwise to comply with the provisions of any Tax Certificate.

(c) *Prepayment of Base Rentals and Partial Redemption of Bonds.* The Lease expressly reserves to the Lessee the right, and the Lessee is authorized by the Lease, to prepay Base Rentals in addition to the Base Rentals otherwise payable under the Lease solely for the purpose of redeeming a Series of Bonds in part pursuant to the Indenture. Such additional Base Rentals shall be deposited into the Redemption Fund and applied to the redemption of the Series of Bonds in part in the manner and to the extent provided in the Indenture. See "THE 2006A BONDS—Redemption Provisions For The 2006A Bonds" in the body of the OFFICIAL STATEMENT to which this APPENDIX B is attached.

(d) *Allocation of Base Rentals.* Each payment of Base Rentals on a regularly scheduled Base Rental Payment Date shall be allocated and applied to each of the portions of the Base Rentals relating to the leasing of the respective Facilities as part of the Leased Property as provided in the Lease (each such portion being the "Amortization Payments" with respect to its related Facility) in the respective amounts set forth in the Base Rental Payment Schedule attached to the Lease. A partial payment of such Base Rentals on a regularly scheduled Base Rental Payment Date shall be allocated pro rata among such payments and shall be treated as a corresponding reduction to the amount payable with respect to each Facility. Prepayments of Base Rentals in part to effect a partial redemption of a Series of Bonds as described in paragraph (c) above shall be applied to a reduction of Base Rentals in the same manner as such Series of Bonds are redeemed in part and shall be allocated either (1) to the Amortization Payments for the Facilities or (2) pro rata among the Amortization Payments for all Facilities financed by such Series of Bonds.

(e) *Reductions to Option Price.* The allocation of payments and prepayments of Base Rentals to Amortization Payments for a Facility as provided in the Lease shall reduce correspondingly the Option Price for that Facility.

Covenant to Request Appropriations

During the term of the Lease, the Lessee covenants and agrees (a) to include in its annual appropriation request, or to cause to be included in the annual appropriation request of those State Bodies to which all or any portion of the Leased Property is subleased as permitted by the Lease, to the Governor for inclusion in the Governor's budget submitted to the Legislature, a request or requests for the amount necessary (after taking into account any moneys then legally available for such purpose) to pay the Base Rentals, including variable rate rentals, and reasonably estimated Additional Rentals for the Leased Property during the next succeeding Renewal Term, (b) to submit a copy of such request or requests for appropriation to the Utah Legislative Fiscal Analyst and (c) to take such further action (or cause the same to be taken) as may be necessary or desirable to assure that the final budget submitted to the Legislature for its consideration seeks an appropriation of moneys sufficient to pay such Base Rentals and Additional Rentals for each such Renewal Term.

To effect the covenants described in the preceding paragraph, the Lessee has in the Lease directed the Director to include in each such request submitted to the Governor and to cause to be included in the annual appropriation request of those State Bodies to which all or any portion of the Leased Property is subleased, items for all payments required for the ensuing Renewal Term under the Lease. The Lessee expresses its intention in the Lease that the decision to renew or not to renew the term of the Lease is to be made solely by the Legislature at the time the Legislature considers for adoption the final budget for each of the Fiscal Years of the State and corresponding Renewal Terms under the Lease, and not by any official or officials of the Lessee or any State Body, acting in his, her or their respective capacity as such. The Lessee covenants and agrees in the Lease that it shall not amend, modify or otherwise change the appropriations made in any finally adopted budget for the payment of any Rentals without the express prior approval of the Legislature.

In the event that any Rentals to be paid by the Lessee to the Trustee are insufficient to pay any Base Rentals payable under the Lease or principal of or interest on the Bonds when due, the Lessee shall request that the Governor submit a request to the Legislature to appropriate additional funds to the Lessee or to any State Body that is subleasing a portion of the Leased Property for the payment of increased Rentals as authorized by Section 63–1–308 of the Act.

Limitations on Liability

Nothing in the Lease shall be construed to require the Legislature to appropriate any money to pay any Rentals or the Option Price or any portion thereof. Subject to the provisions of the Lease, if the Lessee fails to pay any portion of the Rentals that are due under the Lease or an Event of Default under the Lease or an Event of Nonappropriation occurs, the Lessee shall immediately (but in no event earlier than the expiration of the then current Renewal Term for which the Lessee has paid or appropriated moneys sufficient to pay all Rentals due for such Renewal Term, in the case of an Event of Nonappropriation) surrender, quit and vacate the Leased Property in accordance with the schedule therefor provided by the Lessee to the Trustee in accordance with the Lease, and its obligation to pay any Rentals (except for Rentals theretofore appropriated and then available for such purpose) shall thereupon cease. Neither the State (in its capacity as Lessee or otherwise) nor any political subdivision thereof is obligated to pay any Rentals due to the Lessor or the Option Price or any portion thereof.

Subject to the provisions of the Lease, should the Lessee fail to pay any portion of the required Rentals and then fail immediately to surrender, quit and vacate the Leased Property, the Trustee in accordance with the Indenture or any Mortgage may immediately bring legal action to recover the Leased Property from the Lessee or to evict the Lessee from the Leased Property (but not for money damages except as provided in the Lease and in the Indenture) and commence proceedings to foreclose the lien of the Indenture and any Mortgage pursuant to their respective provisions. The Lessee agrees, to the extent permitted by law, to pay as damages for its failure immediately to surrender, quit and vacate the Leased Property upon termination of the then current Renewal Term of the Lease in violation of the terms thereof and Section 63B–1–308 of the Act an amount equal to the Base Rentals otherwise payable during such period prorated on a daily basis and any reasonable Additional Rentals attributable to such period on the basis of the services provided.

Nothing in the Lease shall be construed to provide the Trustee or any Owners with any recourse against any Facilities or any portion thereof released from the security interests and lien under the Lease and under the Indenture and any Mortgage pursuant to the Lease. No judgment may be entered against the State (in its capacity as Lessee or otherwise) or any political subdivision of the State for failure to pay any Rentals or the Option Price or any portion thereof, except to the extent that the Lessee has theretofore incurred liability to pay any such Rentals through its actual use, occupancy and operation of the Leased Property, or through its exercise of an option that renews the Lease for an additional Renewal Term for which moneys have been appropriated, or is otherwise obligated to pay such Rentals pursuant to the Lease.

The Rentals constitute current expenses of the Lessee, and the Lessee's obligations under the Lease are from year–to–year only and do not constitute a mandatory payment obligation of the Lessee in any ensuing Fiscal Year beyond the then current Fiscal Year. No provision of the Lease shall be construed or interpreted as creating a general obligation or other indebtedness of the State or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation. Neither the Bonds nor the obligation to pay Rentals under the Lease constitute or give rise to a general obligation or liability of, or a charge against the general credit or taxing power of, the State or any political subdivisions thereof. Neither the execution, delivery and performance of the Lease nor the issuance of the Bonds directly or indirectly obligates the Lessee to make any payments under the Lease beyond those appropriated for the Lessee's then current Fiscal Year.

Nonappropriation

Subject to the provisions of the Lease, in the event that sufficient funds (a) are not appropriated in the duly enacted State budget by the June 1 next preceding the beginning of any Renewal Term for the payment of the Base Rentals on the Base Rental Payment Dates and reasonably estimated Additional Rentals payable during such Renewal Term, or (b) are otherwise not legally available for such purpose, then an Event of Nonappropriation shall be deemed to have occurred under the Lease. The Trustee shall declare an Event of Nonappropriation on any earlier date on which the Trustee receives an Officer's Certificate from an authorized Lessee representative to the effect that the Legislature has determined by official action not to renew the term of the Lease for the next succeeding Renewal Term and, absent receipt of such Officer's Certificate and if an Event of Nonappropriation has otherwise occurred under the Lease, the Trustee shall give written notice to the Lessee of any Event of Nonappropriation on or before July 1 next succeeding the expiration of the term of the Lease or such later date as the Trustee determines to be in the best interest of the Owners. Any failure of the Trustee to give such written notice to the Lessee will not prevent the Trustee from declaring an Event of Nonappropriation or from taking any remedial action that would otherwise be available to the Trustee under the Lease or under the Indenture or any Mortgage. An Event of Nonappropriation shall also be deemed to have occurred if, during any Renewal Term, any Additional Rentals shall become due for which moneys were not appropriated in the duly enacted budget, or that exceed the amount for those Additional Rentals included in such budget, and funds are not legally available (including funds legally available for such purpose under the Indenture) to the Lessee to pay such Additional Rentals by the earlier of June 30 of the then current Renewal Term or 90 days after the date on which such Additional Rentals are due.

The Trustee may waive any Event of Nonappropriation that is cured by the Lessee within a reasonable time if, in the Trustee's judgment, such waiver is in the best interests of the Owners of the Bonds. After June 30 of each year during the term of the Lease the Trustee shall not waive any Event of Nonappropriation that results from sufficient funds not being appropriated in the duly enacted budget for the payment of the Base Rentals that would be payable during the next succeeding Renewal Term unless the Trustee has reason to believe that appropriate officials of the Lessee and the State are diligently pursuing appropriations by the Legislature to pay such Base Rentals on a timely basis and that a delay in declaring an Event of Nonappropriation, under the circumstances, is in the best interests of the Owners of the Bonds. If an Event of Nonappropriation shall occur, the Lessee shall not be obligated to make payment of the Base Rentals or Additional Rentals provided for in the Lease beyond the last day of the Renewal Term during which such Event of Nonappropriation occurs, except for the Lessee's obligation to pay Rentals that are payable prior to the termination of the Lease. The Lessee shall continue to be liable for the amounts payable pursuant to the Lease during such time when the Lessee continues to use, occupy and operate the Leased Property.

The Trustee shall, upon the occurrence of an Event of Nonappropriation and foreclosure of the lien of the Indenture or any Mortgage, have all rights and remedies to take possession of the Leased Property as trustee for the benefit of the Owners of the Bonds and shall be further entitled to all moneys then on hand in all funds and accounts created under the Indenture. All property, funds and rights acquired by the Trustee upon the termination of the Lessee's possessory interests under the Lease by reason of an Event of Nonappropriation shall be held by the Trustee under the Indenture for the benefit of the Owners of the Bonds until the principal of, and premium (if any) and interest on, the Bonds are paid in full.

Upon the occurrence of an Event of Nonappropriation (which is not waived) or an Event of Default (which is not waived), the Lessee shall have all responsibility for surrendering and vacating the Leased Property and shall surrender and vacate the Leased Property immediately following such occurrence. Within 10 days after the occurrence of an Event of Nonappropriation or an Event of Default, the Lessee shall provide the Trustee with a timetable for surrendering and vacating the Leased Property, which timetable shall provide that the Lessee shall completely surrender and vacate the Leased Property no later than June 30 of the then current Renewal Term.

Acquisition, Construction And Financing Of The Projects

The Lessor shall complete or cause the completion of the Projects, all in accordance with the applicable Project Documents. For this purpose, the Lessor has entered into the Agency Agreement with the Lessee, as the Lessor's agent, and may enter into amendments to such Agency Agreement or enter into other Agency Agreements relating to Additional Facilities. The Lessor or its agent for this purpose shall require the Contractor or Contractors who are or have been awarded the Project Contract or Contracts to provide a faithful performance bond and a labor and material payment bond satisfactory to the Lessor or such agent conditioned upon substantial completion of the respective Projects as expeditiously as reasonably possible from the date of execution of the Lease and also conditioned upon delivery of possession of the Leased Property to the Lessee free and clear of all liens and encumbrances, except Permitted Encumbrances, easements and restrictions in the record title accepted by the Lessee.

In the event that a Project is not completed as described above under the caption "THE INDENTURE—Revenues And Funds–Completion of the Projects; Delivery of Completion Certificate," as evidenced by delivery of a Completion Certificate with respect to such Project, the Trustee shall, upon 30 days' written notice to the Lessee, be authorized, but not required, to complete the Project from any moneys then remaining in the Project Account related to such Project.

If an Event of Nonappropriation or an Event of Default shall occur prior to the delivery of the Completion Certificate for a Project, the moneys remaining in the Project Account relating to such Project may be utilized by the Trustee to complete such Project or, upon termination of the term of the Lease as to the possessory interest of the Lessee, may be disbursed as provided in the Indenture.

The Lessee covenants in the Lease, to the extent permitted by applicable law, to use other legally available funds and to seek additional legally available funds to the extent necessary to complete the Projects as required in the Lease, or to make certain design changes in the Projects (so long as such changes do not cause the Leased Property to be used for purposes other than lawful governmental purposes of the Lessee) to the extent necessary to complete the Projects with moneys then available for such purposes in the respective Project Accounts.

Maintenance And Operation

The Lessee shall, at its own expense, maintain, manage and operate the Leased Property and all improvements thereon in good order, condition and repair, and suffer no waste or injury to any of the Leased Property, ordinary wear and tear excepted. The Lessee shall provide or cause to be provided all security service, custodial service, janitor service, power, gas, telephone, light, heating and water, and all other public utility services. The Lessor, the Trustee and the Owners shall have no obligation to incur any expense of any kind or character in connection with the management, operation or maintenance of the Leased Property during the term of the Lease. The Lessee shall keep the Leased Property and any and all improvements thereto free and clear of all liens, charges and encumbrances, except those caused or consented to by the Trustee and Permitted Encumbrances. The Lessee shall pay for all damage to the Leased Property, its fixtures and appurtenances due to any act or omission or cause whatsoever.

Insurance Provisions

The Lessee shall at all times maintain or cause to be maintained with responsible insurers all such insurance on the Leased Property that is customarily maintained with respect to properties of like character against accident to, loss of or damage to such properties. Notwithstanding the generality of the foregoing, the Lessee shall not be required to maintain or cause to be maintained any insurance that is not available from reputable insurers on the open market, except as required by the Lease, or more insurance than is specifically referred to below.

The Lessee shall during any period of completing each Project and thereafter so long as the Lessee has possession of the Leased Property:

(a) Keep or cause to be kept a policy or policies of insurance against loss or damage to the Leased Property resulting from fire, lightning, vandalism, malicious mischief, riot and civil commotion, and such perils ordinarily defined as “extended coverage” and other perils as the Trustee and the Lessee may agree should be insured against on forms and in amounts satisfactory to each. Such insurance may be carried in conjunction with any other fire and extended coverage insurance carried or required to be carried by the Lessee. Such extended coverage insurance shall, as nearly as practicable, also cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be maintained in an amount not less than the principal amount of the then Outstanding Bonds or the full insurable value of the Leased Property (such value to include amounts spent for completing the Projects and architectural, engineering, legal and administrative fees, inspection and supervision but excluding value attributable to the sites on which the Facilities are located), whichever amount is greater, subject to deductible conditions for any loss not to exceed the lesser of $500,000 or the amount available at any time for such deductible in the Risk Management Fund for any one loss;

(b) Maintain or cause to be maintained public liability insurance against claims for bodily injury or death, or damage to property occurring upon, in or about the Leased Property, such insurance to afford protection to a limit of not less than $1 million combined single limit; *provided, however,* that nothing in the Lease shall be construed to require the Lessee to maintain or cause to be maintained any such public liability insurance for amounts greater than the limitations on such liability provided under the Utah Governmental Immunity Act, Title 63, Chapter 30 of the Utah Code. Such insurance may be maintained under an Owners, Landlords and Tenants policy and may be maintained in the form of a minimum $1 million single limit policy covering all such risks. Such insurance may be carried in conjunction with any other liability insurance coverage carried or required to be carried by the Lessee; and

(c) Maintain or cause to be maintained workers’ compensation coverage to the extent required by law.

All insurance provided for in the Lease shall be effected under policies issued by insurers of recognized responsibility, licensed or permitted to do business in the State, except as otherwise provided in the Lease. The Lessee may, in its discretion, insure the Leased Property under blanket insurance policies that insure not only the Leased Property but other properties as well, so long as such blanket insurance policies otherwise comply with the terms of the Lease.

The Net Proceeds of fire and extended coverage insurance shall be deposited into the Insurance Fund under the Indenture to be applied to rebuild, replace and repair the affected portion of the Leased Property or redeem Outstanding Bonds as provided in the Lease. The Net Proceeds of public liability and property damage insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the Net Proceeds of such insurance shall have been paid.

Notwithstanding anything to the contrary in the Lease, any policies of insurance or any deductible under any policies of insurance that the Lessee is required to keep or cause to be kept pursuant to the Lease may be provided through the Risk Management Fund or other self–insurance program of the State.

Taxes

The Lessor and the Lessee understand and agree in the Lease that the Leased Property constitutes public property free and exempt from all taxation in accordance with applicable law; *provided, however*, that the Lessor agrees to cooperate with the Lessee, upon written request by the Lessee, to contest any proposed tax or assessment, or to take steps necessary to recover any tax or assessment paid. In the event that the Leased Property or any portion thereof or any portion of the Rentals shall, for any reason, be deemed subject to taxation, assessments or charges lawfully made by any governmental body that may be secured by a lien against the Leased Property or any portion of the Rentals, an Additional Rental shall be paid by the Lessee equal to the amount of all such taxes, assessments and governmental charges then due.

Alterations, Additions And Improvements

The Lessee shall have the right during the term of the Lease to make any alterations, additions, replacements, renovations, rehabilitations or improvements of any kind, structural or otherwise, as it shall deem necessary or desirable, on or to the Leased Property, to attach fixtures, structures or signs, and to affix any personal property to the improvements on the Leased Property; *provided, however*, that no such alteration, addition, replacement, renovation, rehabilitation or improvement shall reduce or otherwise adversely affect the value of the Leased Property or the fair rental value thereof or materially alter or change the character or use of the Leased Property or impair the excludability of interest on the Bonds from gross income of the Owners thereof for federal income tax purposes.

Except as described below, all such alterations, additions and improvements shall become the property of the Lessor as a part of the Leased Property and shall be subject to the Lease and the Indenture.

All of the Lessee's equipment and other personal property installed or placed by the Lessee in or on the Leased Property that is not a fixture under applicable law or that is not paid for with the proceeds of sale of the Bonds shall remain the sole property of the Lessee in which neither the Lessor, the Owners of the Bonds nor the Trustee shall have any interest.

Damage Or Destruction; Condemnation

The Lessor and the Lessee agree in the Lease that it is the intent of the parties that, after the delivery of the Completion Certificate with respect to a Project, the risk of any loss arising out of any damage, destruction, seizure or condemnation of the portion of the Leased Property represented by such Project shall be borne by the Lessee and not by the Lessor or the Owners. The Lessee covenants and agrees that in the event of any such damage, destruction or condemnation, the Lessee shall either repair, rebuild or replace the affected portion of the Leased Property to essentially its same condition before any such damage, destruction, seizure or condemnation or provide funds, either through payment of the applicable Option Price, or otherwise, but in any event only from legally available moneys for such purpose, necessary to redeem Bonds at the earliest practicable date in accordance with the Indenture.

If, during the term of the Lease, (a) the Leased Property or any portion thereof shall be destroyed, in whole or in part, or damaged by fire or other casualty or event; or (b) title to, or the temporary or permanent use of, the Leased Property or any portion thereof or the estate of the Lessee, the Lessor or the Trustee in the Leased Property or any portion thereof shall be taken under the exercise of the police power or the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority; or (c) a material defect in Construction of any of the Facilities shall become apparent; or (d) title to or the use of all or any portion of the Leased Property shall be lost by reason of a defect in title; then, subject to the provisions of the Lease, the Lessee shall continue to pay Base Rentals and Additional Rentals and to take such action as it shall deem necessary or appropriate to repair, rebuild and replace the affected portion of the Leased Property, regardless of whether the Projects, or any of them, have been completed and accepted by the Lessee.

In accordance with the Indenture, the Trustee shall cause the Net Proceeds of any insurance policies (including any moneys derived from the Risk Management Fund or other self–insurance program), performance bonds or condemnation awards with respect to the Leased Property, or Net Proceeds received as a consequence of defaults under Project Contracts (excluding liquidated damages) for the Projects, to be deposited into the Insurance Fund to be applied as provided in the Lease and in the Indenture. Net Proceeds so deposited shall be applied to the prompt repair, restoration, modification, improvement or replacement of the damaged or destroyed portion of the Leased Property by the Lessee, except as otherwise provided in the Lease or as may be required by a Tax Certificate. The balance of any Net Proceeds remaining after the repair, restoration, modification, improvement or replacement has been completed are to be deposited into the appropriate Project Account in the Project Fund, if received prior to the applicable Completion Date and, if received thereafter, are to be deposited into the Redemption Fund, except to the extent otherwise required by a Tax Certificate. The Trustee shall cause the Net Proceeds of any liquidated damages received as a consequence of a default by a Contractor to complete a Project in a timely fashion under the Construction Contract to be deposited into the Bond Fund.

If such Net Proceeds shall be insufficient to pay in full the cost of any such repair, restoration, modification, improvement or replacement, the Lessee shall, within 90 days after the occurrence of the event giving rise to such Net Proceeds, either:

(a) commence and thereafter complete the work and pay any cost in excess of the Net Proceeds, but only from Additional Rentals, in which case the Lessee agrees that it will not be entitled to any reimbursement therefor from the Trustee or the Owners of the Bonds, nor shall it be entitled to any diminution of the Base Rentals or Additional Rentals; or

(b) if the failure to repair, rebuild or replace shall not materially detract from the value of the Leased Property, then the Lessee may discharge its obligation to repair, rebuild or replace the affected portion of the Leased Property by causing such Net Proceeds to be deposited into the Redemption Fund for the purpose of causing the extraordinary optional redemption of all or part of the Bonds, as appropriate, in accordance with the Indenture; or

(c) apply or provide for the application of such Net Proceeds to the payment of the Option Price applicable to the affected Facilities as of the next occurring Optional Payment Date, in which case, if the Net Proceeds are insufficient to pay such Option Price, the Lessee shall pay or provide for the payment of such amounts as are necessary to equal the full Option Price applicable to such affected Facilities.

The Lessee agrees in the Lease that any repair, restoration, modification, improvement or replacement paid for in whole or in part out of such Net Proceeds shall be the property of the Lessor subject to the Indenture, any relevant Mortgage and the Lease, and will be included as part of the Leased Property subject to the Lease and the Indenture.

Assignments

Neither the Lease nor any interest of the Lessee therein or in the Leased Property shall, at any time after the date of the Lease, without the prior written consent of the Trustee, be mortgaged, pledged, assigned or transferred by the Lessee by voluntary act or by operation of law, or otherwise, except as specifically provided in the Lease. The Lessee shall at all times remain liable for the performance of the covenants and conditions on its part to be performed, notwithstanding any assigning, transferring or subletting that may be made.

The Lessee shall have the right, without notice to or consent of the Lessor, the Trustee or any Owner of Bonds, to further sublease or permit the use of any specified portion of the Leased Property (a) to or for the benefit of any State Bodies with respect to any of the Facilities, (b) to or for the benefit of any political subdivision or other governmental entity of the State and (c) to any private operator, manager or service provider on such basis, for such use and for such period as will not impair the excludibility from gross income for federal income tax purposes of interest on the Bonds. No subleasing of the Leased Property shall relieve the Lessee from its obligation to pay Rentals as provided in the Lease or relieve the Lessee from any other obligations contained therein. No such assignment or sublease may be made if the use of the portion of the Leased Property represented by such subleased Facilities by the assignee or sublessee will affect the validity of the Lease, change the character or use of the Leased Property to ones not then permitted by applicable law or impair the excludability from gross income for federal income tax purposes of interest on the Bonds.

Compliance With Environmental Laws

The Lessee covenants and agrees in the Lease to carry on the business and operations at the Leased Property in a manner that complies in all respects, and will remain in compliance, with all federal, State, regional, county or local laws, statutes, rules, regulations or ordinances concerning public health, safety or the environment, but only to the extent applicable to the Lessee.

Amendments, Changes And Modifications

Subject to certain limitations contained in the Lease, the Lessor and the Lessee may make, from time to time, without the consent of the Trustee or the Owners of the Bonds, such modifications, alterations, amendments or additions to, or deletions from, the sites on which any of the Facilities are located as the Lessor and the Lessee mutually agree to be necessary and desirable to facilitate the use and development by the Lessee, its successors, permitted sublessees and assigns, of such sites.

The Lease may be amended at any time by written agreement of the Lessor and the Lessee (regardless of any assignments of the Lessor's interests), with the prior written consent of the Trustee, but without notice to or the consent of the Owners of the Bonds pursuant to the Indenture, (a) whenever, in the opinion of counsel satisfactory to the Trustee and the Lessee, the contemplated amendment is necessary to cause the Lease to comply with State law or to cause interest on the Bonds to be or remain excludible from gross income for federal income tax purposes, (b) whenever the effect of such amendment is solely to add further, additional or improved security to the rights of the Trustee and the Owners of the Bonds, (c) whenever the amendment shall not prejudice in any material respect the rights of the Owners of the Bonds then Outstanding or (d) otherwise for any of the purposes permitted by the Indenture. See "THE INDENTURE—Amendment Of Lease And Site Leases" above.

Lessee's Options To Purchase The Leased Property

The Lessee may, if no Event of Default has occurred and is then continuing under the Lease, purchase the Leased Property or any portion thereof representing separate Facilities, subject to the terms of the Lease, on each Optional Payment Date by delivering written notice during the term of the Lease to the Trustee not less than 45 days prior to each Optional Payment Date indicating the Lessee's intention so to purchase the Leased Property or a portion thereof representing such Facilities.

The purchase price for the Leased Property in its entirety to be paid by the Lessee to exercise the option granted in the Lease shall be an amount equal to (a) the Option Price applicable on such Optional Payment Date as indicated on the Option Price Schedule, plus interest on the Bonds to the Optional Payment Date, premium on the Bonds applicable on such Optional Payment Date, if any, and fees and expenses that must be paid to retire the then Outstanding Bonds, (b) all costs of transferring title to the Leased Property to the Lessee and (c) all other reasonable costs and expenses incidental thereto.

The purchase price for a portion of the Leased Property representing separate Facilities shall be an amount equal to (a) the portion of the Option Price applicable to such Facilities on such Optional Payment Date as indicated in the Option Price Schedule attached to the Lease, plus the portion of interest on the Bonds allocable to such Facilities to the Optional Payment Date, premium (if any) on the Bonds to be prepaid from amounts deposited to pay such purchase price and fees and expenses related to a partial redemption of the then Outstanding Bonds, (b) all costs of releasing the lien of the Indenture and the applicable Mortgage with respect to, and transferring title to, the Facilities to be purchased to the Lessee and (c) all other reasonable costs and expenses incidental thereto. Nothing in the Lease shall be construed to create any obligation of the Lessee to purchase the Leased Property or any such separate Facilities.

Events Of Default; Remedies

Events of Default Defined

Any of the following shall be an "Event of Default" under the Lease:

(a) Failure by the Lessee to pay any Base Rentals or other payment obligations required to be paid under the Lease with respect to the Bonds at the times specified therein as the respective due dates therefor; or

(b) Failure by the Lessee to pay any Additional Rentals during the term of the Lease for a period of 30 days after written notice specifying such failure and requesting that it be remedied shall be received by the Lessee from the Trustee; or

(c) Subject to the provisions of the Lease, failure by the Lessee to surrender and vacate the Leased Property by the expiration of any Renewal Term during which an Event of Nonappropriation occurs; or

(d) Failure by the Lessee to observe and perform any covenant, condition or agreement in the Lease on its part to be observed or performed, other than clauses (a), (b) or (c) above, for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Lessee by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration; *provided, however,* that if the failure stated in the notice cannot be corrected within the applicable period, the Trustee will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Lessee within the applicable period and diligently pursued until the default is corrected; or

(e) Any representation or warranty (1) made by the Lessee or by the Lessor pursuant to the Lease or (2) contained in any certificate delivered in connection with the Lease, shall prove to have been false or misleading in any material respect when made; or

(f) The entry of an order or decree in any court of competent jurisdiction enjoining or restraining any of the Projects or enjoining, restraining or prohibiting the Lessee from consummating the transactions contemplated by the Lease, which order or decree is not vacated and which proceedings are not discontinued within 60 days after the granting of such order or decree.

The foregoing provisions of the Lease are subject to the following limitations: (a) the obligations of the Lessee to make payments of the Base Rentals and the Additional Rentals shall be subject to the provisions of the Lease with respect to an Event of Nonappropriation; and (b) if, by reason of Force Majeure (defined below), the Lessee shall be unable in whole or in part to carry out any agreement on its part contained in the Lease (other than the obligations of the Lessee to pay Base Rentals and Additional Rentals), the Lessee shall not be deemed in default during the continuance of such inability. The Lessee agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Lessee from carrying out its agreement; *provided, however,* that the settlement of strikes, lockouts and other disturbances shall be entirely within the discretion of the Lessee.

The term "Force Majeure" means the following: acts of God; strikes, lockouts or other disturbances; acts of public enemies; orders of any kind of the government of the United States of America or the State or any of their respective departments, agencies or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fire; storms; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; partial or entire failure or unavailability of utilities; or any other cause or event not reasonably within the control of the Lessee.

Remedies on Default

Subject to the provisions of the Lease, upon the occurrence and continuance of any Event of Default under the Lease or an Event of Nonappropriation, the Trustee shall give notice to the Lessee to surrender and vacate the Leased Property immediately (but in no event earlier than the expiration of the then current Renewal Term for which the Lessee has paid or appropriated moneys sufficient to pay all Rentals due for such Renewal Term, in the case of an Event of Nonappropriation) and shall, without any further demand or notice, (a) terminate the Lease or the Lessee's possessory rights under the Lease (without otherwise terminating the Lease), re–enter the Leased Property and eject all parties therefrom, and relet the Leased Property or commence proceedings to foreclose on and liquidate, relet or sell the Leased Property; (b) exercise any of the remedies provided to the Trustee upon the occurrence of an

Event of Default under the Indenture or any applicable Mortgage as the Trustee shall determine to be in the best interests of the Owners; or (c) take any action at law or in equity deemed necessary or desirable to enforce its and the Owners' rights with respect to the Leased Property and the Lessee.

Upon the termination of the term of the Lease or the Lessee's possessory interests in the Lease by reason of an Event of Nonappropriation or an Event of Default, all moneys then held in any fund or account under the Indenture and any Net Proceeds received on any foreclosure, liquidation, reletting or sale shall be held by the Trustee for the benefit of the Owners of the Bonds (and applied from time to time as provided in the Indenture). Notwithstanding anything in the Lease to the contrary, the Trustee shall be entitled to relet the Leased Property for such period (not exceeding the term of any applicable Site Lease) as is necessary for the Trustee to obtain sufficient moneys to pay in full the principal of, and premium (if any) and interest on, the Bonds, and the obligations of the Trustee with respect to the Owners of the Bonds and the receipt and disbursement of funds shall be continuing until the liens of the Indenture and the Mortgages are discharged as provided in the Indenture and the Mortgages except as a result of foreclosure.

The Trustee shall give preference in liquidating, reletting or selling the Leased Property (subject to the Site Leases) provided therein to those lessees or buyers of the Leased Property whose use or ownership of the Leased Property would preserve the excludability from gross income for federal income tax purposes of interest on the Bonds.

Limitations on Remedies

With the sole exception of the obligation of the Lessee to pay Base Rentals and Additional Rentals attributable to any period during which the Lessee shall actually use, occupy and operate the Leased Property, or for which the Legislature has appropriated funds for such purpose, no judgment requiring the payment of money not subject to the lien of the Indenture may be entered against the Lessee by reason of any Event of Default or an Event of Nonappropriation under the Lease. In the event the term of the Lease is terminated as a result of an Event of Default or an Event of Nonappropriation, no deficiency judgment may be entered against the Lessee, except as otherwise expressly herein provided with respect to the Lessee's actual use, occupancy and operation of the Leased Property. The Lessee shall not be under any obligation in respect to any creditors, shareholders or security holders of the Lessor (including the Owners of the Bonds), and no remedy or other provision in the Lease or in the Indenture or in any Mortgage provided shall be construed to provide any such remedy or to create or impose any such obligation.

Limitation of Remedies Relating to Certain Leased Property

Notwithstanding any other provisions of the Lease to the contrary, in the event that a lien on or a security interest in, any Facility constituting a portion of the Leased Property has not been granted to the Trustee under a Mortgage, the Lessee shall not be required to surrender, quite or vacate such Facility under any circumstance.

AMENDMENTS TO THE LEASE

The Ninth Amendment to the Lease, entered into by the Authority in conjunction with the Series 2001C Lease Revenue Bonds, makes the Letter of Credit Bank (Landesbank Hessen–Thüringen Girozentrale acting through its New York Branch (the "Bank" or "Helaba")), a party to the Ninth Amendment and provides rights to the Bank and additional duties on the Lessee in respect to the Bank.

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APPENDIX C

DEMOGRAPHIC AND ECONOMIC DATA REGARDING THE STATE OF UTAH

GENERAL INFORMATION

This appendix has been summarized from information which is contained in the *2006 Economic Report to the Governor* (the "2006 ERG") and on data from Calendar Year 2005. *However, the Governor's Office of Planning and Budget ("GOPB") has updated the various sections contained in this appendix with the latest information available.* The 2006 ERG is prepared by the Demographic and Economic Analysis Section of the GOPB. Among other functions, the GOPB is to serve as the lead agency for the U.S. Census Bureau's State Data Center Program. Much of the economic data in 2006 ERG has been generated by members of the State Council of Economic Advisors. A complete copy of the 2006 ERG may be obtained on the internet or by contacting GOPB, 801.538.1027, fax 801.538.1547, email rellis@utah.gov.

TOPOGRAPHICAL INFORMATION

On January 4, 1896, the State became the 45th state of the United States of America (the "U.S."). Ranking 13th among the states in total area, the State contains approximately 84,900 square miles. It ranges in elevation from a low of 2,200 feet above sea level in the south, to a high of 13,500 feet above sea level in the northern mountains. The State is located in an arid region (precipitation ranks as the 2nd lowest in the nation, behind Nevada). Home to deserts, plateaus, the Great Basin and the Rocky Mountains, the State is known for its scenic beauty and the diversity of its outdoor recreation areas. As of April 2001, land ownership in the State was distributed as 63.9% federal, 10.1% State, and 26% other (American Indian reservation, municipal, state sovereign lands, and private).

ECONOMIC INDICATORS

Demographics

The State's July 1, 2005 population was estimated by the Utah Population Estimates Committee to be 2,547,389 persons, an increase of 3.2% from 2004. This growth rate was the fastest since 1992, and the increase of 78,159 people is an all time high for the state. For the first time in over a decade, net in-migration, not natural increase, made up the majority of the State's population growth. The State's population growth due to natural increase is characterized by a high birth rate and low death rate, both at near record levels for the state in 2005.

According to the U.S. Census Bureau's July 1, 2005 population estimates, the State's population increased 1.6% from 2004 to 2005, ranking the State 17th among states in population growth. The State also continues to have a distinctive demographic profile. The State's population is younger, women tend to have more children, people on average live in larger households, and people tend to survive to older ages in comparison to other states.

State Population

Year	Population	% Change From Prior Period
2005 Estimate (1)	2,547,389	14.1%
2000 Census	2,233,169	29.6
1990 Census	1,722,850	17.9
1980 Census	1,461,037	37.9
1970 Census	1,059,273	18.9
1960 Census	890,627	29.3
1950 Census	688,862	25.2
1940 Census	550,310	8.1

(1) Utah Population Estimates Committee, July 1, 2005.

(Source: 2006 ERG and the Utah Population Estimates Committee.)

Components of Population Change in the State

Fiscal Year	Births	Deaths	Natural Increase	Net In-Migration	Population Change
2005	50,431	12,919	37,512	40,647	78,159
2004	50,527	13,282	37,245	18,367	55,612
2003	49,518	12,798	36,720	18,568	55,288
2002	48,041	12,662	35,379	17,299	52,678
2001	47,688	12,437	35,251	23,848	59,099
2000	46,880	11,953	34,927	18,612	53,539
1999	45,434	11,636	33,798	17,584	51,382
1998	44,126	11,648	32,478	9,745	42,223
1997	42,512	11,249	31,263	25,253	56,516
1996	40,495	11,001	29,494	18,171	47,665

(Source: 2006 ERG and the Utah Population Estimates Committee.)

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Significant Characteristics of the State's Population

Category	Ranking (1)	Comments
Population growth (2004 to 2005)	17th (1.6% growth rate)	out of 50 states
State population (July 1, 2004)	34th	out of 50 states
Pre–school age (under five years old)	1st	9.7%
School age (five to 17)	1st	21.2%
Working age (18 to 64)	49th	60.3%
Retirement age (over age 65)	50th	8.7%
Median age (2004)	1st	27.9 years
Dependency ratio (July 1, 2004)	3rd	65.8 per 100 of working age
Fertility rate (2002)	1st	2.56 births/woman
Death rate (2000)	2nd	5.7 deaths/1,000 population
Life expectancy (2000)	3rd	78.6 years
Urban status	9th	88.3% urban
Household size (2004)	1st	3.07 persons

(1) Rankings are from least favorable to most favorable. Rankings are based on the most current national data available for all states.

(Source: 2006 ERG.)

Employment, Wages And Labor Force

In 2005 the State's economy continued the strong growth and recovery that began in 2004. The State's 2005 employment growth was estimated at 3.5%, the highest rate since 1997 and above the 55 year average of 3.3%. The rate of 3.5% was also one of the highest rates in the nation, and was nearly double the national rate.

The strong growth in 2005 should continue as long as the national economic environment moves forward. Under these conditions, the State should continue to be one of the nation's best–performing states.

The State's strong job growth can be attributed in part to its population growth. The State continued to have steady and sizeable population growth throughout the recent recession. The pressures of population growth continued to build while the economy failed to add new jobs for three consecutive years. Because of this, the State economy rebounded from recession in a more robust manner than the nation as a whole. This is the primary reason for the State's strong 2005 employment growth.

Current Unemployment Rates (seasonally adjusted)

Current Unemployment Rate	State	U.S.
October 2005	4.5%	5.0%
October 2004	5.1%	5.5%

(Source: Utah Department of Workforce Services, Workforce Information.)

Average Annual Employment and Unemployment Rate for Utah and the U.S.

Year	Utah Civilian Labor Force	Utah Total Employed	Unemployment Rate Utah	Unemployment Rate U.S.	Utah Unemployment Rate as % of U.S. Rate
2005 (f)	1,248,875	1,190,600	4.7%	5.1%	92.2%
2004	1,203,459	1,140,498	5.2	5.5	94.5
2003	1,188,279	1,121,088	5.7	6.0	95.0
2002	1,174,582	1,107,379	5.7	5.8	98.3
2001	1,153,387	1,103,028	4.4	4.8	91.7
2000	1,133,870	1,095,657	3.4	4.0	85.0
1999	1,120,591	1,080,441	3.6	4.2	85.7
1998	1,101,972	1,061,282	3.7	4.5	82.2
1997	1,068,279	1,034,429	3.1	4.9	63.3
1996	1,040,493	1,004,347	3.5	5.4	64.8

(f) forecast.

(Source: 2006 ERG.)

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Employment

Utah Labor Force, Nonagricultural Jobs, and Wages

Selected Years

	2006 (f)	2005 (e)	2004	2003	2002	% Change 05–06	% Change 04–05	% Change 03–04	% Change 02–03
Civilian labor force	1,280,100	1,248,875	1,203,459	1,188,279	1,174,582	2.5	3.8	1.3	1.2
Employed	1,223,800	1,190,600	1,140,498	1,121,088	1,107,379	2.8	4.4	1.7	1.2
Unemployed	56,300	58,275	62,961	67,191	67,203	(3.4)	(7.4)	(6.3)	(0.0)
Unemployment rate	4.4%	4.7%	5.2%	5.7%	5.7%	–	–	–	–
Total nonfarm jobs (thousands)	1,180,800	1,143,500	1,104,328	1,074,131	1,073,746	3.3	3.5	2.8	0.0
Mining	8,700	8,100	7,083	6,670	6,880	7.4	14.4	6.2	(3.1)
Construction	86,800	80,800	72,631	67,599	67,838	7.4	11.2	7.4	(0.4)
Manufacturing	120,300	117,800	114,765	112,291	113,873	2.1	2.6	2.2	(1.4)
Trade, transportation, utilities	230,600	224,800	219,212	213,970	216,032	2.6	2.5	2.4	(1.0)
Information	33,300	31,700	30,272	30,013	31,004	5.0	4.7	0.9	(3.2)
Financial activity	68,300	66,500	65,040	64,674	63,352	2.7	2.2	0.6	2.1
Professional and business services	151,800	143,600	138,220	131,910	131,912	5.7	3.9	4.8	(0.0)
Education and health services	133,100	128,200	123,282	118,379	113,696	3.8	4.0	4.1	4.1
Leisure and hospitality	106,800	105,500	102,031	99,634	100,943	1.2	3.4	2.4	(1.3)
Other services	34,200	33,600	32,915	32,451	32,970	1.8	2.1	1.4	(1.6)
Government	206,900	202,900	198,877	196,537	195,246	2.0	2.0	1.2	0.7
Goods–producing	215,800	206,700	194,479	186,560	188,591	4.4	6.3	4.2	(1.1)
Service–producing	965,000	936,800	909,849	887,571	885,155	3.0	3.0	2.5	0.3
% Service–producing	81.7%	81.9%	82.4%	82.6%	82.4%				
Total Nonagricultural wages (millions)	$40,150	$37,610	$35,005	$32,887	$32,333	6.8	7.4	6.4	1.7
Average annual wage	$34,002	$32,890	$31,698	$30,617	$30,112	3.4	3.8	3.5	–
Average monthly wage	$2,834	$2,741	$2,642	$2,551	$2,509	3.4	3.7	3.6	1.7

(f) forecast; (e) estimate.

(Source: 2006 ERG.)

Largest Nonagricultural Employers (1)

Employer	Business	Employee Range
Intermountain Health Care	Hospitals and clinics	20,000+
State of Utah	State government	20,000+
Brigham Young University	Higher education	15,000–20,000
University of Utah (Including Hospital)	Higher education	15,000–20,000
Hill Air Force Base	Military installation	10,000–15,000
Wal–Mart Stores	Department store	10,000–15,000
Convergys	Telemarketing	7,000–10,000
Davis County School District	Public education	7,000–10,000
Granite School District	Public education	7,000–10,000
Jordan School District.	Public education	7,000–10,000
Alpine School District	Public education	5,000–7,000
Internal Revenue Service	Federal government	5,000–7,000
Kroger Group Cooperative	Retail stores	5,000–7,000
Novus (Discover Card)	Consumer loans	5,000–7,000
Salt Lake County	County government	5,000–7,000
U.S. Postal Service	Mail distribution	5,000–7,000
Utah State University	Higher education	5,000–7,000
Albertson's	Food stores	4,000–5,000
ATK Aerospace Company	Aerospace equipment manufact.	4,000–5,000
Autoliv Asp (Morton International)	Mfg. vehicle parts	4,000–5,000
Delta Airlines Inc.	Air transportation	4,000–5,000
Icon Health & Fitness	Mfg. Exercise equipment	3,000–4,000
Nebo School District	Public education	3,000–4,000
Salt Lake City	Local government	3,000–4,000
Salt Lake City School District	Public education	3,000–4,000
SOS Temporary Services	Temporary employment	3,000–4,000
United Parcel Service	Courier service	3,000–4,000
Weber County School District	Public education	3,000–4,000
Wells Fargo Bank N.A.	Banking	3,000–4,000
Zions First National Bank	Banking	3,000–4,000
Home Depot	Building supply store	2,000–3,000
J.C. Penney Company	Department stores	2,000–3,000
Macey's Inc.	Food stores	2,000–3,000
Pacific Corp. (Utah Power)	Electric generation/distribution	2,000–3,000
Provo City School District	Public education	2,000–3,000
Qwest Corporation	Telephone service/communications	2,000–3,000
Salt Lake Community College	Higher education	2,000–3,000
Skywest Airlines	Air transportation	2,000–3,000
Teleperformance USA	Telephone service/communications	2,000–3,000
Utah Valley State College	Higher education	2,000–3,000
Washington County School District	Public education	2,000–3,000
Weber State University	Higher education	2,000–3,000

(1) Annual average 2004. Includes those firms with 2,000 to 3,000 and more employees. The Church of Jesus Christ of Latter–day Saints ("LDS") remains one of the State's largest employers; however, the Church does not disclose employment numbers.

(Source: Utah Department of Workforce Services, Workforce Information.)

Personal Income

The State's estimated 2005 total personal income was $69.6 billion, 8.1% above the 2004 preliminary estimate of $64.4 billion. This was significantly higher than the U.S. personal income growth of 5.7%. The State's 2005 per capita personal income was estimated to be $28,235, an increase of 4.8% over the 2004 estimate. The most recent available income estimates for the State from the U.S. Bureau of Economic Analysis ("BEA") are for 2004. According to the BEA, the State's 2004 per capita income of $26,946 ranked Utah 46th in the nation (including Washington, D.C.).

Total Personal Income (in millions)

	Utah		United States	
Year	Amount	% Change	Amount	% Change
2005 (e)	$69,590	8.1%	$10,257,000	5.7%
2004 (p)	64,376	6.7	9,702,525	6.0
2003 (r)	60,320	3.7	9,156,108	3.2
2002	58,163	2.8	8,872,521	1.8
2001	56,594	5.7	8,716,992	3.5
2000	53,561	8.5	8,422,074	8.0
1999	49,343	4.9	7,796,137	5.1
1998	47,019	7.7	7,415,709	7.4
1997	43,667	8.1	6,907,332	6.1
1996	40,386	8.5	6,512,485	6.0
1990	25,817	8.1	4,861,936	8.1
1985	19,794	6.7	3,511,344	7.2
1980	12,519	13.5	2,298,255	11.9

(e) estimated; (p) preliminary; (r) revised.

(Source: Bureau of Economic Analysis.)

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Components of the State's Total Personal Income

	(in millions)				% change 2004–03	% change 2003–02	% change 2002–01
	2004 (p)	2003 (r)	2002	2001			
Total Personal income	$64,376	$60,320	$58,163	$56,594	13.8	3.7	2.8
Earnings by place of work	53,235	49,578	47,545	46,273	15.0	4.3	2.7
less: Contributions for government social insurance	5,748	5,351	5,189	5,030	14.3	3.1	3.2
plus: Adjustment for residence	30	19	10	18	66.7	90.0	(44.4)
equals: Net earnings by place of residence	47,517	44,246	42,365	41,261	15.2	4.4	2.7
plus: Dividends, interest, and rent	9,604	9,214	9,302	9,372	2.5	(0.9)	(0.7)
plus: Personal current transfer receipts	7,255	6,860	6,495	5,961	21.7	5.6	9.0
Components of earnings	53,235	49,578	47,545	46,273	15.0	4.3	2.7
Wage and salary disbursements	37,268	35,078	34,356	33,827	10.2	2.1	1.6
Supplements to wages and salaries	9,277	8,443	7,925	7,210	28.7	6.5	9.9
Proprietors' income	6,690	6,058	5,263	5,237	27.7	15.1	0.5
Farm proprietors' income	129	102	51	160	(19.4)	100.0	(68.1)
Nonfarm proprietors' income	6,561	5,956	5,212	5,077	29.2	14.3	2.7
Earnings by industry	53,235	49,578	47,545	46,273	15.0	4.3	2.7
Farm earnings	246	225	187	277	(11.2)	20.3	(32.5)
Nonfarm earnings	52,989	49,353	47,357	45,996	15.2	4.2	3.0
Private earnings	42,963	39,920	38,329	37,606	14.2	4.2	1.9
Natural resouces and mining	715	628	579	606	18.0	8.5	(4.5)
Construction	4,181	3,722	3,581	3,492	19.7	3.9	2.5
Manufacturing	6,318	6,083	5,776	5,928	6.6	5.3	(2.6)
Durable goods manufacturing	4,233	4,123	3,947	4,101	3.2	4.5	(3.8)
Nondurable goods manufacturing	2,085	1,959	1,829	1,826	14.2	7.1	0.2
Trade, transportation, utilities	9,063	8,414	8,319	8,226	10.2	1.1	1.1
Wholesale trade	2,334	2,149	2,120	2,132	9.5	1.4	(0.6)
Retail trade	4,057	3,761	3,640	3,580	13.3	3.3	1.7
Information	1,653	1,549	1,548	1,671	(1.1)	0.1	(7.4)
Financial activities	4,442	4,115	3,774	3,553	25.0	9.0	6.2
Professional and business services	7,671	7,055	6,656	6,657	15.2	6.0	(0.0)
Educational and health services	4,826	4,485	4,221	3,943	22.4	6.3	7.1
Leisure and hospitality	1,797	1,711	1,825	1,654	8.6	(6.2)	10.3
Other services	2,296	2,158	2,051	1,877	22.3	5.2	9.3
Government and government enterprises	10,026	9,433	9,028	8,391	19.5	4.5	7.6
Federal, civilian	2,639	2,480	2,424	2,194	20.3	2.3	10.5
Military	819	781	631	495	65.5	23.8	27.5
State	2,787	2,580	2,501	2,326	19.8	3.2	7.5
Local	3,781	3,593	3,473	3,376	12.0	3.5	2.9

(r) revised; (p) preliminary

(Source: Bureau of Economic Anaylsis.)

Per Capita Personal Income

Year	Income Per Capita Utah	Income Per Capita U.S.	Annual % Change Utah	Annual % Change U.S.	Utah as a % of U.S.
2005 (e)	$28,235	$34,617	4.8%	4.8%	81.6%
2004 (p)	26,946	33,041	5.1	4.9	81.6
2003 (r)	25,645	31,487	2.3	2.2	81.4
2002	25,073	30,814	1.5	0.8	81.4
2001	24,711	30,580	3.5	2.5	80.8
2000	23,878	29,847	6.6	6.8	80.0
1999	22,393	27,939	3.2	3.9	80.1
1998	21,708	26,883	5.4	6.1	80.7
1997	20,600	25,334	5.5	4.8	81.3
1996	19,529	24,175	5.7	4.8	80.8
1990	14,913	19,477	6.5	5.2	76.6
1985	12,048	14,758	5.4	6.2	81.6
1980	8,501	10,114	9.1	10.6	84.1

(e) estimate; (p) preliminary; (r) revised.

(Sources: Bureau of Economic Analysis, November 2005.)

Gross State Product

Gross State Product ("GSP") is the value of final goods and services produced by the labor and property located in a state. It is the state counterpart to the national Gross Domestic Product ("GDP"). Conceptually, GSP is gross output less intermediate inputs. BEA ("BEA") released revisions to the 2004 GSP accelerated estimates in October 2005.

Total Gross State Product (1)
(in millions of current dollars)

Year	Utah Amount	Utah % Change	United States Amount	United States % Change
2004	$82,611	7.7%	$11,665,595	6.8%
2003	76,674	4.1	10,923,849	4.9
2002	73,646	4.5	10,412,244	3.5
2001	70,490	3.8	10,058,156	3.2
2000	67,889	5.8	9,749,104	6.0
1999	64,143	6.4	9,201,137	6.0
1998	60,294	6.5	8,679,657	5.4
1997	56,590	–	8,237,994	–

(1) Only eight years of data is available because of changes in the industry classification system from the Standard Industrial Classification ("SIC") to the North American Industry Classification System ("NAICS") in 2001.

(Source: U.S. Department of Commerce, Bureau of Economic Analysis ("BEA").)

Gross Taxable Sales

Taxable sales consist of final sales of most tangible personal property in the State. Selected services such as hotel and lodging, automobile leases, amusements and repairs to tangible personal property are also taxable in the State. In 2005, taxable sales in the State increased by 9.8% to an estimated $38.8 billion. This was the fastest growth rate since 1997, and was due to the strong economic growth that all of the State's economic sectors experienced in 2005.

Taxable sales is made up of three major components:

1. Retail trade taxable sales were an estimated $22.0 billion in 2005, representing 56.9% of taxable sales. This represents an 8.3% increase in 2005, the fastest rate since 1996. Retail trade is projected to grow 6.7% in 2006.

2. Business investment and utility taxable sales were an estimated $10.4 billion in 2005, representing 26.9% of taxable sales. This represents a near record increase of 14.4% in 2005; second only to the rate of 15.1% in 2004. This sector is expected to grow 3.3% in 2006.

3. Taxable services grew to an estimated $5.1 billion in 2005, representing 13.1% of taxable sales. This represents an 11.8% growth in 2005, the fastest growth rate since 1996. Taxable services is expected to increase 11.5% in 2006.

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Gross Taxable Sales

(millions of dollars)

Calendar Year	Retail Sales	% Change	Business Investment Purchases	% Change	Taxable Services	% Change	All Other	% Change	Total Gross Taxable Sales	% Change
2006 (f)….	$23,515	6.7 %	$10,777	3.3 %	$5,651	11.5 %	$ 1,400	15.7 %	$ 41,343	6.7 %
2005 (e)….	22,044	8.3	10,436	14.4	5,067	11.8	1,210	(7.3)	38,757	9.8
2004……..	20,351	8.2	9,121	15.3	4,534	3.1	1,305	(9.8)	35,311	8.4
2003……..	18,808	2.5	7,909	(1.6)	4,396	(4.7)	1,447	(3.7)	32,560	0.1
2002 …….	18,356	3.4	8,039	(6.4)	4,615	(2.0)	1,502	8.8	32,512	0.3
2001 …….	17,748	2.7	8,588	2.6	4,709	(0.8)	1,381	10.5	32,426	2.5
2000……..	17,278	4.8	8,372	6.8	4,746	9.1	1,250	(5.0)	31,646	5.5
1999……..	16,493	5.3	7,839	1.4	4,351	5.6	1,316	15.7	29,999	4.7
1998……..	15,657	5.3	7,729	9.7	4,122	10.7	1,137	(4.3)	28,645	6.8
1997……..	14,873	3.3	7,044	2.4	3,724	3.6	1,188	22.7	26,828	3.8
1996……..	14,404	10.1	6,878	10.4	3,594	12.1	968	(11.4)	25,844	9.5
1995……..	13,080	8.1	6,231	11.1	3,205	14.4	1,093	7.3	23,609	9.7

(f) forecast; (e) estimate.

(Source: 2006 ERG.)

Construction And Housing

The value of permit authorized new construction reached $6.4 billion in 2005, an all–time high. This represents a remarkable 25% increase over the 2004 level $5.1 billion. Residential construction reached a record in new construction activity ($4.5 billion), and in the number of new dwelling units receiving building permits (26,800 units). Single–family homes dominated new residential construction as low mortgage rates, high rates of net in–migration and favorable demographics drove demand for new single family homes to the record level of 20,000 units.

Permit-authorized nonresidential construction increased by 10.1% to $1.2 billion, this strong growth was response to employment expansion. The nonresidential sector did not have any mega projects in 2005, but rather a large number of mid–size projects of $10 to $20 million, the largest of which was the $24 million Kraftmaid manufacturing plant in West Jordan City (Salt Lake County).

Permit–Authorized Construction

		Construction Value (millions of dollars)			
Year	Total Units	Residential	Nonresidential	Renovations	Total Valuation
2005 (e)	26,800	$4,500.0	$1,200.0	$700.0	$6,400.0
2004	24,293	3,552.6	1,089.9	476.0	5,118.5
2003	22,836	3,046.4	1,017.5	497.0	4,560.8
2002	19,541	2,491.9	897.1	393.0	3,782.0
2001	19,675	2,352.7	969.8	562.8	3,885.4
2000	18,154	2,139.6	1,123.0	583.3	3,936.0
1999	20,350	2,238.1	1,195.4	537.0	3,971.0
1998	21,743	2,188.7	1,148.4	461.3	3,798.4
1997	20,687	1,943.5	1,371.0	407.1	3,721.6
1996	23,737	2,104.5	951.8	386.3	3,442.6
1995	21,558	1,854.6	832.7	409.0	3,096.3

(e) estimate.

(Source: 2006 ERG and the GOPB.)

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[LETTERHEAD OF CHAPMAN AND CUTLER LLP]

[TO BE DATED CLOSING DATE]

$8,355,000
State Building Ownership Authority
Lease Revenue Bonds
(State Facilities Master Lease Program),
Series 2006A

We hereby certify that we have examined certified copy of the proceedings of record of the State Building Ownership Authority (the *"Issuer"*), a body politic and corporate of the State of Utah, passed preliminary to the issuance by the Issuer of its Lease Revenue Bonds (State Facilities Master Lease Program), Series 2006A, in the aggregate principal amount of $8,355,000 (the *"Series 2006A Bonds"*). The Series 2006A Bonds are issuable only as fully registered bonds without coupons in the denomination of $5,000 or any whole multiple thereof. The Series 2006A Bonds are dated the date hereof, bear interest payable on May 15 and November 15 in each year, commencing May 15, 2006, until paid, and mature on May 15 of each of the years and in the amounts and bear interest as follows:

YEAR OF MATURITY	PRINCIPAL AMOUNT	RATE OF INTEREST	YEAR OF MATURITY	PRINCIPAL AMOUNT	RATE OF INTEREST
2008	$280,000	3.50%	2017	$ 395,000	4.00%
2009	290,000	4.00	2018	410,000	4.15
2010	300,000	4.00	2019	425,000	4.25
2011	315,000	3.50	2020	445,000	4.25
2012	325,000	3.50	2021	465,000	5.00
2013	335,000	4.00	2022	485,000	4.75
2014	350,000	4.00	2023	510,000	5.00
2015	365,000	4.00	2027	2,280,000	4.25
2016	380,000	4.00			

The Series 2006A Bonds are subject to redemption prior to maturity at the times, in the manner and upon the terms set forth in the Series 2006A Bonds and the Indenture hereinafter described.

The Series 2006A Bonds are being issued pursuant to the Indenture under the authority of the State Building Ownership Authority Act, Title 63B, Chapter 1, Part 3 of the Utah Code Annotated 1953, as amended, Section 63B-14-201 of the Utah Code Annotated 1953, as amended, and other applicable Utah law (collectively, the *"Act"*) for the purpose of (a) financing certain projects pursuant to the Act consisting of the acquisition and construction of three State-operated alcoholic beverage outlets for the Department of Alcoholic Beverage Control of the State of Utah and related facilities, property and improvements, (b) capitalizing interest on the Series 2006A Bonds as provided in the Indenture, and (c) paying the costs and expenses incidental thereto and to the issuance of the Series 2006A Bonds.

From such examination of the proceedings of the Issuer referred to above and from an examination of the Act, we are of the opinion that such proceedings show lawful authority for the issuance of the Series 2006A Bonds under the laws of the State of Utah (the *"State"*) now in force.

In connection with the issuance of the Series 2006A Bonds, we have also examined an originally executed counterpart of each of the following: (a) that certain Indenture of Trust, Assignment of State Facilities Master Lease Agreement and Security Agreement, dated as of September 1, 1994 (the *"Original Indenture"*), between the Issuer and Wells Fargo Bank, N.A. (as successor in interest to First Security Bank of Utah, N.A.), as trustee (the *"Trustee"*), as heretofore supplemented and amended and as further supplemented and amended by that certain Thirteenth Supplemental Indenture of Trust, dated as of January 1, 2006 (the *"Thirteenth Supplemental Indenture"*) to the Original Indenture (the Original Indenture as thereafter supplemented and amended, including by the Thirteenth Supplemental Indenture, is herein referred to as the *"Indenture"*), between the Issuer and the Trustee; and (b) that certain annually renewable State Facilities Master Lease Agreement, dated as of September 1, 1994 (the *"Original Lease"*), between the Issuer and the State, acting through its Department of Administrative Services, Division of Facilities Construction and Management, as lessee, as heretofore supplemented and amended and as further supplemented and amended by that certain Thirteenth Amendment, dated as of January 1, 2006 (the *"Thirteenth Amendment"*) to the Original Lease (the Original Lease and the Thirteenth Amendment are herein collectively referred to as the *"Lease"*), between the Issuer and the State.

The Series 2006A Bonds are issued under and are equally and ratably secured by the Indenture, pursuant to which the Issuer has mortgaged, pledged and assigned to the Trustee for the benefit of the owners of the Series 2006A Bonds and the Prior Parity Bonds (as such term is defined in the Indenture) and the owners of any bonds hereafter issued on a parity therewith under the Indenture all of the Issuer's right, title and interest in and to the Facilities (as such term is defined in the Indenture), the Lease (including the right under the Lease to receive Base Rentals, as such term is defined in the Lease), as security for the payment of the principal of, and premium, if any, and interest on, the Series 2006A Bonds, the Prior Parity Bonds and such parity bonds. The Series 2006A Bonds are limited obligations of the Issuer and are payable solely from the Base Rentals received under the Lease and, if paid, the Option Price (as such term is defined in the Lease) and, to the extent not so paid, from the Trust Estate (as such term is defined in the Indenture) and from such amounts as may be realized by the Trustee upon the exercise of any of its rights and remedies pursuant to the Indenture and the Mortgages (as such term is defined in the Indenture). Neither the Series 2006A Bonds nor the Lease constitute the debt or indebtedness of the Issuer, the State or any political subdivision of the State within the meaning of any constitutional provision or limitation nor constitute or give rise to or are a general obligation or liability of, nor a charge against the general credit or taxing powers of, the State or any political subdivision of the State. The Issuer has no taxing power. In the event of default of any payment of principal of, or premium (if any) or interest on, the Series 2006A Bonds or any violation of any provision of the Lease or the Indenture resulting in the foreclosure of the liens, security interests and rights granted by the Indenture and the Mortgages, the Trustee shall be entitled, among other things, to pursue certain remedies against the Facilities as provided in the Indenture and the Mortgages but no deficiency judgment upon foreclosure may be entered in any event against the Issuer, the State or any political subdivision of the State, except as otherwise expressly provided in the Lease with respect to the State's actual use and occupancy of the Leased Property (as such term is defined in the Indenture), and no breach of any covenant or agreement in the Lease, the Indenture or the Mortgages shall impose any general obligation or liability upon, nor a charge against, the State or the general credit or taxing power of the State or any of its political subdivisions.

Under the Lease, the Facilities have been or will be leased by the Issuer to the State, and the State has agreed to pay, directly to the Trustee, the Base Rentals, but only if and to the extent that the Utah Legislature specifically appropriates funds annually sufficient to pay the Base Rentals coming due during the succeeding fiscal year of the State plus such additional amounts (the *"Additional Rentals"*) as may be necessary to operate and maintain the Facilities during such period. The Base Rentals and the Additional Rentals are hereinafter referred to collectively as the *"Rentals."* Under the Lease, the Issuer has been granted an option to purchase the Leased Property (excluding State-Owned Sites, as such term is defined in the Lease) and to terminate its obligations under the Lease upon payment of the then-applicable Option Price. The Lease specifically provides, however, that nothing therein shall be construed to require the State to appropriate any money to pay any Rentals or the Option Price thereunder. In addition, the obligation of the State to pay Base Rentals under the Lease will terminate, without payment of the Option Price or any other amounts, if an Event of Nonappropriation or an Event of Default (as each such term is defined in the Lease) shall occur.

Based upon an examination of the aforementioned documents and of such other documents and matters of law as we have deemed relevant and necessary as a basis for the opinions set forth herein, it is further our opinion that:

1. The Issuer is a duly organized and validly existing body politic and corporate of the State and has the authority under the Act to issue the Series 2006A Bonds and to authorize, execute, deliver and perform its obligations under the Lease and the Indenture.

2. The Thirteenth Amendment has been duly authorized, executed and delivered and the Lease constitutes the legal, valid and binding obligation of the Issuer and the State enforceable in accordance with its terms, except to the extent that the enforcement thereof may be limited by bankruptcy, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally or usual equity principles in the event equitable remedies should be sought.

3. The Thirteenth Supplemental Indenture has been duly authorized, executed and delivered by the Issuer and, assuming the due authorization, execution and delivery thereof by the Trustee, the Indenture constitutes the legal, valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms, except to the extent that the enforcement thereof may be limited by bankruptcy, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally or usual equity principles in the event equitable remedies should be sought.

4. The Series 2006A Bonds are valid and binding limited obligations of the Issuer enforceable in accordance with their terms (except to the extent that the enforcement thereof may be limited by bankruptcy, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally or usual equity principles in the event equitable remedies should be sought) and the terms of the Indenture and are entitled to the benefits of the Indenture and the Act; and (except to the extent paid out of moneys attributable to Bond proceeds or income from the temporary investment thereof, the Option Price, if paid, and any payments derived from the exercise by the Trustee of its rights and remedies against the Trust Estate as provided in the Indenture and the Mortgages) the Series 2006A Bonds are and will continue to be payable solely from Base Rentals paid by the State under the Lease, which Base Rentals have been duly assigned to the Trustee pursuant to the Indenture and pledged to the payment of principal of, and premium, if any, and interest on, the Series 2006A Bonds. Such amounts, which by the terms of the Lease are to be paid by the State to the Trustee, are sufficient for the payment of the principal of, and premium, if any, and interest on, the Series 2006A Bonds as the same become due so long as the State exercises its option annually under the Lease to extend the term of the Lease as provided therein.

5. The obligations of the State under the Lease are subject to the exercise in the future by the State and its governmental bodies of the police power inherent in the sovereignty of

the State and to the exercise by the United States of America of the powers delegated to it by the federal Constitution.

We further certify that we have examined the form of registered Bond of the issue and find the same in due form of law.

It is our opinion that, subject to the Issuer's and the State's compliance with certain covenants, under present law, interest on the Series 2006A Bonds is not includible in gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the *"Code"*), but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such Issuer and State, covenants could cause interest on the Series 2006A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2006A Bonds. Ownership of the Series 2006A Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Series 2006A Bonds.

It is further our opinion that under the laws of the State, as presently enacted and construed, interest on the Series 2006A Bonds is exempt from taxes imposed by the Utah Individual Income Tax Act. No opinion is expressed with respect to any other taxes imposed by the State of or any political subdivision thereof. Ownership of the Series 2006A Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Series 2006A Bonds.

We express no opinion as to the title to, the description of, or the perfection, priority or existence of any liens, charges, security interests or encumbrances on, any of the Facilities.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2006A Bonds.

In rendering this opinion, we have relied upon certifications of the Issuer and the State with respect to certain material facts solely within the Issuer's and the State's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and it not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "*Disclosure Undertaking*") is executed and delivered by the STATE OF UTAH (the "*State*"), in connection with the issuance by the State Building Ownership Authority of the State of Utah (the "*Authority*") of $8,355,000 principal amount of its Lease Revenue Bonds (State Facilities Master Lease Program), Series 2006A (the "*2006A Bonds*"). The 2006A Bonds are being issued pursuant to an Indenture of Trust, Assignment of State Facilities Master Lease Agreement and Security Agreement, dated as of September 1, 1994, as thereafter supplemented and amended, including by a Thirteenth Supplemental Indenture of Trust, dated as of January 1, 2006 (as so supplemented and amended, the "*Indenture*"). Certain terms are defined in Section 11 hereof.

The State hereby undertakes and agrees as follows:

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the State for the benefit of the Bondholders and in order to assist each Participating Underwriter in complying with the Rule.

SECTION 2. Annual Information and Audited Financial Statements. The State agrees to provide or cause to be provided to each Repository:

(a) Annual Information for the preceding Fiscal Year not later than the Filing Date for each Fiscal Year; and

(b) Audited Financial Statements for the preceding Fiscal Year not later than the later of the Filing Date for each Fiscal Year or within 30 days after becoming available to the State.

Any or all of the items listed above may be included by specific reference to other documents; provided that if the document included by reference is not a final official statement, it must have been provided previously to each of the Repositories or the Securities and Exchange Commission, and if the document included by reference is a final official statement, it must be available from the MSRB.

SECTION 3. Notice of Listed Events and Failure to Provide Annual Information. The State agrees to provide or cause to be provided to each National Repository or to the MSRB, and to any State Repository, in a timely manner:

(a) notice of the occurrence of any Listed Event with respect to the 2006A Bonds, if material (within the meaning of the Rule); and

(b) notice of its failure to provide or cause to be provided the Annual Information on or before the applicable Filing Date.

Notwithstanding the foregoing, notice of Listed Events consisting of bond calls or defeasances need not be given under this Section 3 any earlier than the date notice of the underlying event is given to the registered owners of affected 2006A Bonds pursuant to the Indenture, and notice of the occurrence of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, is not required if the terms of the redemption pursuant to which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which 2006A Bonds will be redeemed in the case of a partial redemption.

SECTION 4. Electronic Filing. Any filing required or permitted to be made pursuant to this Disclosure Undertaking may be made by transmitting such filing with an entity then recognized by the Securities and Exchange Commission as eligible to receive filings and submit such filings to the National

Repositories and any State Repository for purposes of the Rule (a "*Central Post Office*"). As of the date of this Disclosure Undertaking, the Central Post Office that has been so recognized by the Securities and Exchange Commission is:

DisclosureUSA.org
P.O. Box 684667
Austin, Texas 78768-4667
Fax: (512) 476-6403
http://www.disclosureUSA.org

SECTION 5. Termination of Reporting Obligation. The obligations of the State pursuant to this Disclosure Undertaking will terminate at such time as no 2006A Bonds remain Outstanding (within the meaning of the Indenture). The State shall give notice of such termination in a timely manner to each Repository.

SECTION 6. Dissemination Agent. The State may, from time to time, appoint or engage a Dissemination Agent and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the State may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived; provided, however, that no amendment or waiver may take effect unless the following conditions are satisfied:

(a) the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an "obligated person" (within the meaning of the Rule) with respect to the 2006A Bonds, or the type of business conducted;

(b) this Disclosure Undertaking, as amended or taking into account such waiver, in the opinion of counsel of national reputation experienced in bond or federal securities law selected by the State, would have complied with the requirements of the Rule at the time of the original issuance of the 2006A Bonds, taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver either (i) is approved by the registered owners of the 2006A Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of registered owners of the 2006A Bonds, or (ii) does not materially impair the interests of the Bondholders as determined by the opinion of counsel of national reputation experienced in bond or federal securities law unaffiliated with the State but who or which may be selected by the State, or as determined by another party unaffiliated with the State but which may be selected by the State.

SECTION 8. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the State chooses to include any information in any Annual Information or notice of occurrence of any Listed Event or any other event, in addition to that which is specifically required by this Disclosure Undertaking, the State will have no obligation pursuant to this Disclosure Undertaking to update the information or include it in any future Annual Information or notice of occurrence of a Listed Event.

SECTION 9. Failure to Perform. Any Bondholder may enforce the State's obligation to provide or cause to be provided information or notice pursuant to this Disclosure Undertaking by commencing an action in a court of competent jurisdiction to seek specific performance by court order to compel the State to provide or cause to be provided such information or notice; provided that any Bondholder must first as a condition precedent to commencing the action provide at least 30 days' prior written notice to the State of its failure to perform, giving reasonable detail of such failure, following which notice the State shall have such 30 days within which to perform. Failure by the State to perform pursuant to this Disclosure Undertaking shall not be deemed a default or an Event of Default with respect to the 2006A Bonds or within the meaning of the Indenture or any other document and the sole remedy pursuant to this Disclosure Undertaking in the event of any failure of the State to comply with this Disclosure Undertaking shall be an action in mandamus or to compel specific performance.

SECTION 10. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the State, the Bondholders from time to time, and any Dissemination Agent appointed and acting as such pursuant hereto, and shall create no rights in any other person or entity.

SECTION 11. Definitions. For the purposes of this Disclosure Undertaking, the following capitalized terms shall have the following meanings:

"Annual Information" means:

(a) quantitative financial information and operating data concerning the operations of the State of the type contained in the sections of the Official Statement captioned "DEBT STRUCTURE OF THE STATE OF UTAH" and "FINANCIAL INFORMATION REGARDING THE STATE OF UTAH"; and

(b) unaudited annual Financial Statements of the State unless Audited Financial Statements are provided at the same time.

In addition to the information described in clauses (a) and (b) above, (i) if any part of the Annual Information described in (a) can no longer be generated because the operations to which it is related have been materially changed or discontinued, the State will include a statement to that effect as part of the Annual Information for the year in the change or discontinuation occurs, and (ii) the Annual Information for the year in which any amendment or waiver of a provision of this Disclosure Undertaking occurs shall describe and explain the amendment or waiver, the reason for it and its impact on the type of information being provided, and if the amendment relates to the accounting principles to be followed in preparing financial statements, the Annual Information for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

"Audited Financial Statements" means the audited annual Financial Statements of the State.

"Bondholder" means a beneficial owner of a 2006A Bond, with beneficial ownership determined on a basis consistent with the provisions of Rule 13d-3 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, or, if those provisions do not adequately address the situation in question (in the opinion of counsel of national reputation experienced in bond or federal securities law selected by the State), with beneficial ownership determined on the basis of ownership for federal income tax purposes. Any assertion of beneficial ownership must be established by evidence in writing with full documentary support filed with the State.

"*Dissemination Agent*" means any agent appointed by the State from time to time to assist the State in discharging its obligations pursuant to this Disclosure Undertaking.

"Filing Date" means the January 15th following the end of each Fiscal Year, the first Filing Date being January 15, 2007.

"*Financial Statements*" means annual financial statements of the State prepared in conformity with generally accepted accounting principles applicable to governmental units as promulgated from time to time by the Governmental Accounting Standards Board.

"*Fiscal Year*" means each fiscal year of the State commencing with the fiscal year ending June 30, 2006.

"*Listed Events*" means any of the following events:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions or events affecting the tax-exempt status of the security;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the securities; and

(11) rating changes.

"*MSRB*" means the Municipal Securities Rulemaking Board, the current address of which is 1900 Duke Street, Suite 600, Alexandria, VA 22314; telephone number (703) 797-6600; facsimile (703) 797-6700.

"*National Repository*" means each Nationally Recognized Municipal Securities Information Repository which is recognized as such for purposes of the Rule at the time any information or notice is to be provided pursuant to this Disclosure Undertaking. The National Repositories at the time of execution and delivery of this Disclosure Undertaking are listed in Exhibit A.

"*Official Statement*" means the final Official Statement, dated January 10, 2006, with respect to the initial offering of the 2006A Bonds.

"*Participating Underwriter*" means each broker, dealer, or municipal securities dealer acting as an underwriter in the primary offering of the 2006A Bonds, including, particularly Wells Fargo Brokerage Services, LLC.

"*Repository*" means each National Repository and each State Repository.

"*Rule*" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, as applicable to the 2006A Bonds.

"*State*" means the State of Utah.

"State Repository" means any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Undertaking, there is no State Repository.

SECTION 12. CUSIP Numbers. The CUSIP numbers of the 2006A Bonds are as set forth below:

Maturity (May 15)	CUSIP Number	Maturity (May 15)	CUSIP Number
2008	917547 RV 5	2017	917547 SE 2
2009	917547 RW 3	2018	917547 SF 9
2010	917547 RX 1	2019	917547 SG 7
2011	917547 RY 9	2020	917547 SH 5
2012	917547 RZ 6	2021	917547 SJ 1
2013	917547 SA 0	2022	917547 SK 8
2014	917547 SB 8	2023	917547 SL 6
2015	917547 SC 6	2027	917547 SM 4
2016	917547 SD 4		

SECTION 13. Governing Law; Forum. This Disclosure Undertaking shall be governed by the law of the State. Any action to enforce this Disclosure Undertaking against the State may be brought only in a State court.

SECTION 14. Budget Requirement. Pursuant to the law of the State, no expenditures may be made by the State in any Fiscal Year for a purpose not included in the budget, and no expenditure may be made or obligation or liability incurred or created by the State in any Fiscal Year in excess of the amount specified for such purpose in the budget for that Fiscal Year, except as otherwise provided by law. The State's undertaking in this Disclosure Undertaking is subject to this limitation of State law on expenditures by the State for costs of performing its obligations pursuant to this Disclosure Undertaking.

SECTION 15. Source of Information. The persons from whom Annual Information, Audited Financial Statements and any notices described herein can be obtained are (a) the Treasurer of the State of Utah, Utah State Capitol Complex, East Office Building Ste E315 (PO Box 142315), Salt Lake City, Utah 84114-2315, telephone: (801) 538-1042, and (b) a Trust Officer of the Bond Registrar, at Wells Fargo Bank, N.A., Corporate Trust Services, 299 S. Main St, 12th Fl, Salt Lake City, Utah 84111; telephone: (801) 246-5930.

Date: January 19, 2006

STATE OF UTAH

By____
Edward T. Alter, State Treasurer

Exhibit A

List of Nationally Recognized Municipal Securities Information Repositories at the time of execution and delivery of the Disclosure Undertaking

The list of National Repositories may change from time to time. The Disclosure Undertaking requires that Annual Information be provided to each Repository, and that certain notices be provided to the State Repository, if any, and either to each National Repository or to the MSRB. There is currently no State Repository for the State of Utah. The list should be checked for changes each time information or notice is to be provided. A current list may be obtained from the Securities and Exchange Commission over the Internet at http://www.sec.gov/info/municipal/nrmsir.htm

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/rates/municontacts.html
E-mail: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
http://www.dpcdata.com
E-mail: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999; (800) 689-8466
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
http://www.ftid.com
E-mail: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3875
http://jjkenny.com/jjkenny/pser_descrip_data_rep.html
E-mail: nrmsir_repository@sandp.com

APPENDIX F

BOOK–ENTRY SYSTEM

DTC, the world's largest depository, is a limited–purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non–U.S. equity, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post–trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book–entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non–U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly–owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non–U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at dtcc.com.

Purchases of the 2006A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2006A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2006A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2006A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2006A Bonds, except in the event that use of the book–entry system for the 2006A Bonds is discontinued.

To facilitate subsequent transfers, all 2006A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2006A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2006A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2006A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2006A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2006A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2006A Bond documents. For example, Beneficial Owners of the 2006A Bonds may wish to ascertain that the nominee holding the 2006A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2006A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2006A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2006A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2006A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the State or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2006A Bonds at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, 2006A Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book–entry transfers through DTC (or a successor securities depository). In that event, 2006A Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book–entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

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