

SOUTHERN UTAH UNIVERSITY

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Independent State Auditor's Report

To the Southern Utah University Board of Trustees
and Steven D. Bennion, President

We have audited the accompanying basic financial statements of Southern Utah University (hereinafter referred to as the "University"), a component unit of the State of Utah, as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

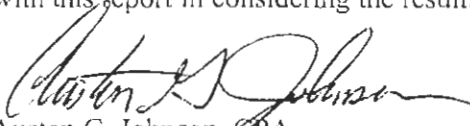
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2003 and 2002, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the University implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* as of June 30, 2002.

The accompanying management discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We 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.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 5, 2003 and January 10, 2003 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.


Auston G. Johnson, CPA
Utah State Auditor
December 5, 2003

**SOUTHERN UTAH UNIVERSITY
MANAGEMENT DISCUSSION AND ANALYSIS
For The Years Ended June 30, 2003 and 2002**

Introduction

The following discussion and analysis provide an overview of the financial position and activities of Southern Utah University (University) for the years ended June 30, 2003 and June 30, 2002. This discussion was prepared by management and should be read in conjunction with the audited financial statements and the notes thereto, which follow this section.

Through its 107-year history, Southern Utah University has evolved from a teacher training school into its current role as a comprehensive, regional university. It serves the southern region of Utah and the contiguous counties of two states with undergraduate and graduate programs and applied technology training. People of the region look to the University for public education, outreach services, culture, sporting events, economic and business development, regional history, public affairs, and major academic specialties. The University enrolls approximately 6,000 undergraduate and graduate students.

Financial

The University, along with the state of Utah and other state institutions of higher education, implemented new accounting standards for the fiscal year ended June 30, 2002 as promulgated by the Governmental Accounting Standards Board (GASB). These new standards represent major changes in the way governments and agencies report financial data in the form of financial statements. Since 2002 was a transition year to the new format, financial information from the 2001 fiscal year is not available and is not presented in this analysis. Additional comparative data will be presented in future years.

The annual report consists of three basic financial statements that provide information on the University as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. Each of these statements will be discussed.

The University's financial statements include, as a blended component unit, the activity of the Southern Utah University Foundation (Foundation). The Foundation was established to provide support, promote, sponsor, and carry-out educational and related activities and objectives at the University. Separate unaudited financial statements of the Foundation can be obtained from the University.

Statement of Net Assets

The Statement of Net Assets is a list of the Assets and Liabilities of the University at June 30, with the difference being the Net Assets. The Net Assets are categorized as "Invested in Capital Assets", "Restricted" (Expendable or Nonexpendable), or "Unrestricted." Net Assets Invested in Capital Assets are the fixed assets of the University reduced by accompanying debt and accumulated depreciation. Restricted Nonexpendable Net Assets are endowment and similar funds that are held in perpetuity. Restricted Expendable Net Assets are subject to externally imposed restrictions governing their use. All other Net Assets are listed as Unrestricted. Below is the Condensed Statement of Net Assets as of June 30, 2003 and 2002.

Condensed Statement of Net Assets

| | <u>June 30, 2003</u> | <u>June 30, 2002</u> | <u>Change</u> | <u>% Change</u> |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------|
| Assets | | | | |
| Current Assets | \$21,119,175 | \$18,338,323 | \$ 2,780,852 | 15.2% |
| Noncurrent Assets | | | | |
| Capital Assets | 89,959,201 | 92,206,737 | (2,247,536) | (2.4%) |
| Other Noncurrent Assets | <u>21,362,093</u> | <u>14,614,215</u> | <u>6,747,878</u> | 46.2% |
| Total Assets | 132,440,469 | 125,159,275 | 7,281,194 | 5.8% |
| Liabilities | | | | |
| Current Liabilities | 8,756,019 | 7,711,879 | 1,044,140 | 13.5% |
| Noncurrent Liabilities | <u>17,578,708</u> | <u>9,753,378</u> | <u>7,825,330</u> | 80.2% |
| Total Liabilities | 26,334,727 | 17,465,257 | 8,869,470 | 50.8% |
| Net Assets | | | | |
| Invested in Capital Assets | 82,631,632 | 83,563,134 | (931,502) | (1.1%) |
| Restricted Nonexpendable | 4,267,319 | 4,185,720 | 81,599 | 2.0% |
| Restricted Expendable | 9,846,538 | 9,999,797 | (153,259) | (1.5%) |
| Unrestricted | <u>9,360,253</u> | <u>9,945,367</u> | <u>(585,114)</u> | (5.9%) |
| Total Net Assets | <u>\$106,105,742</u> | <u>\$107,694,018</u> | <u>\$(1,588,276)</u> | (1.5%) |

SOUTHERN UTAH UNIVERSITY
MANAGEMENT DISCUSSION AND ANALYSIS
For The Years Ended June 30, 2003 and 2002
(continued)

The increase in Current Assets was primarily due to an increase in cash invested in the Utah Public Treasurer's Investment Fund (PTIF), which is included as cash on the financial statements, offset by a corresponding decrease in Other Noncurrent Assets, which include long-term investments. This resulted from less competitive rates available on other mid-term (2 to 5 years) investment options. The significant change in Noncurrent Assets and Liabilities is the result of the issuance of revenue bonds to refund outstanding bonds and to construct the Eccles Living Learning Center (student housing). These bonds are discussed in the footnotes to the financial statements. Depreciation expense in excess of net capital asset additions resulted in the decrease to Capital Assets and the change in the Net Asset section for Invested in Capital Assets. The other changes in Restricted Net Assets are small and are the result of normal operational fluctuations. A decrease in Unrestricted Net Assets could be expected in challenging economic times as the University strives to meet its needs. The overall slight decline (1.5%) in total Net Assets for the year would indicate that the University has maintained its strong financial condition.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets present the University's results of operations for the year ended June 30. Below is the Condensed Statement of Revenues, Expenses, and Changes in Net Assets as of June 30, 2003 and 2002.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

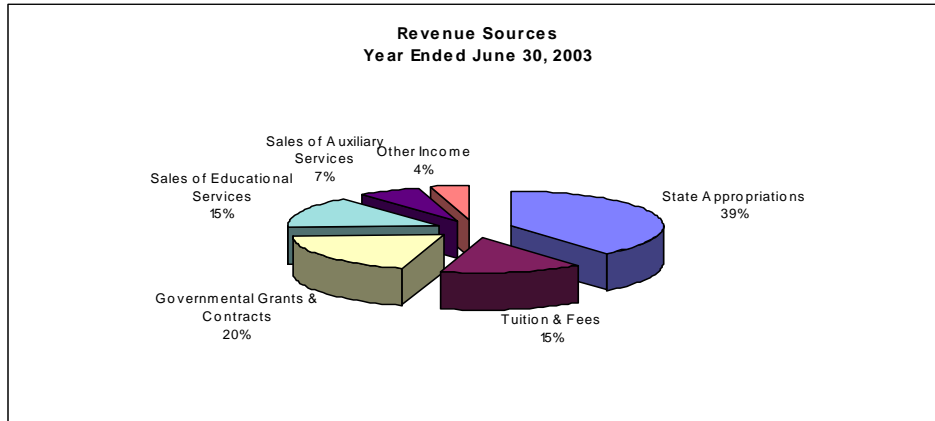
| | <u>June 30, 2003</u> | <u>June 30, 2002</u> | <u>Change</u> | <u>% Change</u> |
|----------------------------------|----------------------|----------------------|-----------------------|-----------------|
| Operating Revenues | | | | |
| Tuition and Fees | \$ 10,176,365 | \$ 10,197,995 | \$ (21,630) | (.2%) |
| Grants and Contracts | 13,454,545 | 12,878,402 | 576,143 | 4.5% |
| Sales and Services | 10,066,423 | 9,513,076 | 553,347 | 5.8% |
| Auxiliary Enterprises | 4,493,940 | 4,647,138 | (153,198) | (3.3%) |
| Other | <u>54,632</u> | <u>63,936</u> | <u>(9,304)</u> | <u>(14.6%)</u> |
| Total Operating Revenues | 38,245,905 | 37,300,547 | 945,358 | 2.5% |
| Operating Expenses | <u>70,073,381</u> | <u>69,236,288</u> | <u>837,093</u> | 1.2% |
| Operating Loss | (31,827,476) | (31,935,741) | 108,265 | .3% |
| Nonoperating Revenues (Expenses) | | | | |
| State Appropriations | 26,475,498 | 27,107,455 | (631,957) | (2.3%) |
| Gifts | 1,748,679 | 2,098,445 | (349,766) | (16.7%) |
| Investment Income | 428,213 | 91,229 | 336,984 | 369.4% |
| Other Nonoperating Revenues | 248,369 | 31,008 | 217,361 | 701.0% |
| Interest Expense | <u>(410,607)</u> | <u>(431,130)</u> | <u>20,523</u> | 4.8% |
| Net Nonoperating Revenue | 28,490,152 | 28,897,007 | (406,855) | (1.4%) |
| Other Revenues | <u>1,749,048</u> | <u>1,843,211</u> | <u>(94,163)</u> | (5.1%) |
| Net Decrease in Net Assets | (1,588,276) | (1,195,523) | (392,753) | (32.9%) |
| Net Assets - Beginning of Year | <u>107,694,018</u> | <u>108,889,541</u> | <u>(1,195,523)</u> | (1.1%) |
| Net Assets End of Year | <u>\$106,105,742</u> | <u>\$107,694,018</u> | <u>(\$ 1,588,276)</u> | (1.5%) |

For fiscal year 2003 State Appropriations slipped 2.3% from budget reductions imposed by the Legislature. A slight decrease in budget-related FTE (Full Time Equivalent enrollment) and a 9% tuition increase (undergraduate resident) kept Tuition and Fee revenues level. Government Grants and Contracts increased 4.5% mainly due to an increase in federal financial aid. Sales and Services of Educational Activities increased 5.8%, due mainly to increased course fee revenue and an increase in Shakespeare Festival revenues for the 2002 season over the 2001 season. Sales and Services of Auxiliary Enterprises decreased by 3.3% as a result of fewer students on campus, but each of the auxiliaries maintained consistent revenue per FTE enrollment from the previous year. Investment Income rebounded considerably during the year. The institution will continue to seek funding from all possible sources consistent with its mission, in order to fund its operating activities.

During 2002 the University experienced revenue increases in State Appropriations, Government Grants and Contracts, Sales of Educational Activities and Auxiliary Enterprises. Investment Income declined due to the soft national economy. The University also implemented significant tuition increases to reduce the impact of budget cuts and to maintain critical programs.

**SOUTHERN UTAH UNIVERSITY
MANAGEMENT DISCUSSION AND ANALYSIS
For The Years Ended June 30, 2003 and 2002
(continued)**

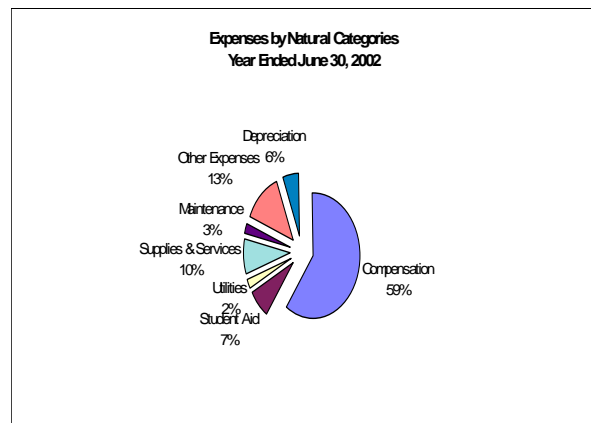
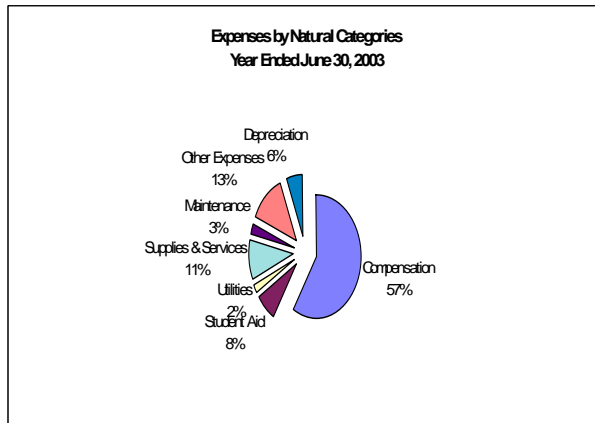
The following graph illustrates all funding sources of the University for the year ended June 30, 2003:



2003 saw individual expenses as a percentage of total expense remain relatively unchanged from the prior year. Increases occurred in Student Aid expenses of 2.6% and Supplies and Services of 12.4%. Student Aid increases related to Federal Financial Aid expenses keeping pace with rising tuition. Supplies and Services increases were primarily due to consulting services for the University’s new administrative software system conversion, student recruitment and retention efforts, and increases in Shakespeare Festival expenditures from the 2001 season to the 2002 season. A decrease occurred in Utilities of 6.6% due to significant efforts within the Plant Operations department to modernize and negotiate favorable rates. Maintenance decreased by 3.3% and Other Expenses decreased by 1.6% from 2002. Compensation, including benefits, continues to be the significant area of financial pressure for the University.

During 2002 Compensation and Student Aid experienced the greatest increases. Depreciation expense was not recorded in prior years and fixed assets acquisitions were recorded in the expense category representing a significant change in reporting expenses brought on by GASB 34.

The following graphs illustrate expenses of the University by natural classification as a percentage of total expense for the years ended June 30, 2003 and 2002:



SOUTHERN UTAH UNIVERSITY
MANAGEMENT DISCUSSION AND ANALYSIS
For The Years Ended June 30, 2003 and 2002
(continued)

A comparative summary of the University's operating expenses by functional classification for the years ended June 30, 2003 and 2002 is included below:

Expenses by Functional Classification

| | <u>June 30, 2003</u> | <u>June 30, 2002</u> |
|----------------------------------|----------------------------|----------------------------|
| Instruction | \$19,188,968 | \$19,303,695 |
| Public Service | 11,739,682 | 11,324,730 |
| Academic Support | 3,975,852 | 3,718,208 |
| Student Services | 6,344,243 | 6,630,659 |
| Institutional Support | 7,110,306 | 6,167,210 |
| Operation & Maintenance of Plant | 6,223,293 | 6,621,326 |
| Student Aid | 5,345,201 | 5,205,478 |
| Auxiliary Enterprises | 6,113,149 | 6,409,936 |
| Depreciation | 4,032,687 | 3,855,046 |
| Total Operating Expenses | <u>\$70,073,381</u> | <u>\$69,236,288</u> |

Statement of Cash Flows

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

Condensed Statement of Cash Flows

| | <u>June 30, 2003</u> | <u>June 30, 2002</u> | <u>Change</u> |
|---------------------------------|----------------------|----------------------|----------------------|
| Cash Provided (Used) by: | | | |
| Operating Activities | \$ (27,126,438) | \$ (28,062,481) | \$ 936,043 |
| Noncapital Financing Activities | 28,397,545 | 29,952,230 | (1,554,685) |
| Capital Financing Activities | 8,373,828 | (533,923) | 8,907,751 |
| Investing Activities | <u>2,321,392</u> | <u>219,071</u> | <u>2,102,321</u> |
| Net Change in Cash | 11,966,327 | 1,574,897 | 10,391,430 |
| Cash - Beginning of Year | <u>17,025,132</u> | <u>15,450,235</u> | <u>1,574,897</u> |
| Cash - End of Year | <u>\$ 28,991,459</u> | <u>\$ 17,025,132</u> | <u>\$ 11,966,327</u> |

The major changes in cash and cash equivalents for the University resulted from the issuance of Revenue Bonds (Capital Financing Activities) and from maturing or called investments in excess of investment purchases (Investing Activities).

Economic Factors that May Affect the Future

The University is confident in its ability to deliver excellent education to its students. With the rise and fall of the economic tide, the University is confident in its ability to respond to budget reductions or to take advantage of growth opportunities. The University implemented a significant tuition increase for the 2003-2004 year with no significant decrease in enrollment. The University has also implemented a major marketing and retention program to meet our enrollment goals.

Attracting and retaining faculty and staff is a continuing challenge facing the University in an increasingly competitive market. The cost of University health benefits has increased dramatically over the past several years, even as the University has taken steps to reduce utilization and increase employee cost sharing. The increased pressure upon the State of Utah to provide financial support through state appropriations will, in part, impact the University's ability to meet these challenges.

SOUTHERN UTAH UNIVERSITY
MANAGEMENT DISCUSSION AND ANALYSIS
For The Years Ended June 30, 2003 and 2002
(continued)

While economically, the recovery for the State of Utah appears to be underway, it may be several years before the State's economy expands to a point where major new state appropriations flow to higher education. Given this outlook, the University will continue to emphasize cost containment and realignment of resources to meet goals and objectives.

Summary

The accompanying financial statements, including the footnotes, indicate the University is on sound financial footing. Current and noncurrent assets greatly exceed current and noncurrent liabilities respectively. The revenues sources, though challenging, are expected to continue to support the operating needs of the University for the foreseeable future.



SOUTHERN UTAH UNIVERSITY

STATEMENT OF NET ASSETS

As of June 30, 2003 and 2002

| | <u>2003</u> | <u>2002</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents (Note B) | \$ 14,914,211 | \$ 12,478,797 |
| Short-term Investments (Note B) | 114,014 | 116,246 |
| Accounts, Interest and Pledges Receivable (Note C) | 1,519,140 | 1,316,103 |
| Loans Receivable, Net (Note D) | 450,641 | 393,374 |
| Due from Division of Facilities Construction and Management | 173,745 | 171,658 |
| Inventories (Note E) | 1,007,741 | 928,473 |
| Prepaid Expenses (Note F) | <u>2,939,683</u> | <u>2,933,672</u> |
| Total Current Assets | 21,119,175 | 18,338,323 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents (Note B) | 14,077,248 | 4,546,335 |
| Investments (Note B) | 5,072,421 | 6,949,784 |
| Accounts, Interest and Pledges Receivable (Note C) | | 865,478 |
| Loans Receivable, Net (Note D) | 1,942,924 | 1,995,838 |
| Real Estate | 269,500 | 256,780 |
| Capital Assets, Net of Accumulated Depreciation (Note G) | <u>89,959,201</u> | <u>92,206,737</u> |
| Total Noncurrent Assets | 111,321,294 | 106,820,952 |
| Total Assets | <u>132,440,469</u> | <u>125,159,275</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts and Interest payable (Note H) | 1,167,248 | 657,961 |
| Payroll and Withholding Taxes Payable | 929,614 | 193,214 |
| Compensated Absences & Termination Benefits (Note I) | 1,128,444 | 1,239,435 |
| Deposits and Other Liabilities | 214,722 | 191,974 |
| Deferred Revenues (Note F) | 3,931,324 | 4,063,179 |
| Bonds and Contracts Payable (Notes I & J) | <u>1,384,667</u> | <u>1,366,116</u> |
| Total Current Liabilities | 8,756,019 | 7,711,879 |
| Noncurrent Liabilities: | | |
| Compensated Absences & Termination Benefits (Note I) | 1,193,428 | 1,113,506 |
| Bonds and Contracts Payable (Notes I & J) | <u>16,385,280</u> | <u>8,639,872</u> |
| Total Noncurrent Liabilities | 17,578,708 | 9,753,378 |
| Total Liabilities | <u>26,334,727</u> | <u>17,465,257</u> |
| NET ASSETS | | |
| Invested in Capital Assets Net of Related Debt | 82,631,632 | 83,563,134 |
| Restricted: Nonexpendable - Scholarships | 4,267,319 | 4,185,720 |
| Expendable | | |
| Scholarships | 3,311,079 | 3,381,329 |
| Capital Projects | 2,634,294 | 2,826,111 |
| Loans | 2,601,052 | 2,628,981 |
| Other | 1,300,113 | 1,163,376 |
| Unrestricted | <u>9,360,253</u> | <u>9,945,367</u> |
| Total Net Assets | <u>\$ 106,105,742</u> | <u>\$ 107,694,018</u> |

The accompanying notes are an integral part of these financial statements

SOUTHERN UTAH UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For The Years Ended June 30, 2003 and 2002

| | <u>2003</u> | <u>2002</u> |
|--|-----------------------|-----------------------|
| Operating Revenues: | | |
| Student Tuition and Fees (Note K) | \$ 10,176,365 | \$ 10,197,995 |
| (net of scholarship allowances of \$4,633,155 for 2003 and \$4,205,633 for 2002) | | |
| Governmental Grants and Contracts | 13,454,545 | 12,878,402 |
| Sales and Services of Educational Activities | 10,066,423 | 9,513,076 |
| Sales and Services of Auxiliary Enterprises (Note K) | 4,493,940 | 4,647,138 |
| (net of scholarship allowances of \$260,075 for 2003 and \$273,209 for 2002) | | |
| Interest Income on Student Loans | <u>54,632</u> | <u>63,936</u> |
| Total Operating Revenues | 38,245,905 | 37,300,547 |
| Operating Expenses: | | |
| Salaries | 29,815,803 | 29,883,679 |
| Benefits | 11,323,098 | 11,266,536 |
| Depreciation | 4,032,687 | 3,855,046 |
| Repairs and Maintenance | 1,838,229 | 1,900,049 |
| Services and Supplies | 7,485,551 | 6,660,595 |
| Student Aid | 5,345,201 | 5,205,478 |
| Utilities | 1,487,970 | 1,593,652 |
| Other Operating Expenses | <u>8,744,842</u> | <u>8,871,253</u> |
| Total Operating Expenses | 70,073,381 | 69,236,288 |
| Operating Income (Loss) | <u>(31,827,476)</u> | <u>(31,935,741)</u> |
| Nonoperating Revenues (Expenses) | | |
| Government Appropriations - State | 26,475,498 | 27,107,455 |
| Private Gifts and Grants | 1,748,679 | 2,098,445 |
| Investment Income | 428,213 | 91,229 |
| Other Nonoperating Revenue (Note K) | 248,369 | 31,008 |
| Interest on Indebtedness | <u>(410,607)</u> | <u>(431,130)</u> |
| Net Nonoperating Revenue | 28,490,152 | 28,897,007 |
| Income (Loss) Before Other Revenue | <u>(3,337,324)</u> | <u>(3,038,734)</u> |
| Other Revenue | | |
| Capital Appropriations | 859,045 | 1,125,523 |
| Capital Grants & Gifts | 640,127 | 470,839 |
| Additions to Permanent Endowments | <u>249,876</u> | <u>246,849</u> |
| Total Other Revenue | 1,749,048 | 1,843,211 |
| Increase (Decrease) in Net Assets | (1,588,276) | (1,195,523) |
| Net Assets - Beginning of Year | 107,694,018 | 161,625,655 |
| Prior Period Adjustment (Note A) | | <u>(52,736,114)</u> |
| Net Assets - Adjusted Beginning of Year | 107,694,018 | 108,889,541 |
| Net Assets - End of Year | <u>\$ 106,105,742</u> | <u>\$ 107,694,018</u> |

The accompanying notes are an integral part of these financial statements

SOUTHERN UTAH UNIVERSITY
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2003 and 2002

| | <u>2003</u> | <u>2002</u> |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and Fees | \$ 10,244,441 | \$ 10,325,958 |
| Receipts from Grants/Contracts | 13,194,449 | 12,875,680 |
| Receipts from Auxiliary and Educational Services | 14,207,256 | 13,997,374 |
| Collection of Loans to Students and Employees | 360,494 | 700,640 |
| Loans Issued to Students and Employees | (449,855) | (839,596) |
| Payments for Employee Services and Benefits | (40,418,171) | (41,064,195) |
| Payments to Suppliers | (18,919,851) | (18,852,864) |
| Payments for Student Financial Aid | (5,345,201) | (5,205,478) |
| Net Cash Provided (Used) by Operating Activities | <u>(27,126,438)</u> | <u>(28,062,481)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State Appropriations | 26,525,498 | 27,057,455 |
| Gifts/Grants for Other Than Capital Purposes | 1,622,171 | 2,647,926 |
| Receipts for Permanent Endowments | 249,876 | 246,849 |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>28,397,545</u> | <u>29,952,230</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Capital State Appropriations | 859,045 | 1,125,523 |
| Receipts from Capital Grants/Gifts | 1,573,792 | 1,593,488 |
| Proceeds from Sale of Capital Assets | 248,369 | 31,008 |
| Proceeds from Capital Debt | 10,395,982 | 5,200,273 |
| Purchases of Capital Assets | (1,787,238) | (2,280,914) |
| Principal Paid on Capital Debt/Leases | (2,505,515) | (5,772,171) |
| Interest Paid on Capital Debt/Leases | (410,607) | (431,130) |
| Net Cash Provided (Used) by Capital Financing Activities | <u>8,373,828</u> | <u>(533,923)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from Sale/Maturity of Investments | 3,713,075 | 4,765,689 |
| Receipt of Interest/Dividends from Investments | 708,317 | 826,426 |
| Purchase of Investments | (2,100,000) | (5,373,044) |
| Net Cash Provided (Used) by Investing Activities | <u>2,321,392</u> | <u>219,071</u> |
| Net Increase in Cash | 11,966,327 | 1,574,897 |
| Cash & Cash Equivalents--Beginning of Year | <u>17,025,132</u> | <u>15,450,235</u> |
| Cash & Cash Equivalents--End of Year | <u>\$ 28,991,459</u> | <u>\$ 17,025,132</u> |

The accompanying notes are an integral part of these financial statements

SOUTHERN UTAH UNIVERSITY
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2003 and 2002
(continued)

| | <u>2003</u> | <u>2002</u> |
|--|------------------------|------------------------|
| Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | |
| Operating Income (Loss) | \$ (31,827,476) | \$ (31,935,741) |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation Expense | 4,032,687 | 3,855,046 |
| Changes in Assets and Liabilities: | | |
| Receivables (Net) | (347,528) | 441,238 |
| Student Loans Receivable | (4,353) | (92,483) |
| Inventories | (79,268) | (65,019) |
| Prepaid Expenses | (6,011) | 170,496 |
| Accounts Payable | 509,287 | (76,912) |
| Accrued Liabilities | 22,748 | 29,988 |
| Accrued Payroll | 736,400 | 41,692 |
| Deferred Revenues | (131,855) | (448,462) |
| Compensated Absences | (31,069) | 17,676 |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (27,126,438)</u> | <u>\$ (28,062,481)</u> |

Noncash Investing, Noncapital Financing, and Capital Related Financing Transactions

| | | |
|---|--------------|--------------|
| Change in Fair Value of Investments Recognized as Investment Income | \$ (253,800) | \$ (741,915) |
| Donation of Investment Securities | 65,359 | 338,150 |
| Donation of Steinway Concert Grand and Mason & Hamlin Pianos | 100,751 | |
| Donation of Land (4 residential lots, undeveloped and raw land) | 98,100 | |

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

| | | |
|---|----------------------|----------------------|
| Cash and Cash Equivalents Classified as Current Assets | \$ 14,914,211 | \$ 12,478,797 |
| Cash and Cash Equivalents Classified as Noncurrent Assets | <u>14,077,248</u> | <u>4,546,335</u> |
| Total Cash and Cash Equivalents | <u>\$ 28,991,459</u> | <u>\$ 17,025,132</u> |

The accompanying notes are an integral part of these financial statements

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002

Note A. Summary of Significant Accounting Policies

The significant accounting policies followed by the University are described below to enhance the usefulness of the financial statements to the reader.

Reporting Entity

The University is a component unit of the State of Utah as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The financial activity of the University is included in the State's Comprehensive Annual Financial Report as a non-major discrete component unit.

The University's financial statements include the accounts of the University, all auxiliary enterprises and other restricted and unrestricted funds of the University, and the Southern Utah University Foundation (the Foundation). The Foundation, a non-profit organization, was incorporated under Utah law in 1996. The Foundation was established to provide support for the University, its students and faculty, and to promote, sponsor, and carry-out educational, scientific, charitable, and related activities and objectives at the University. The University has a controlling number of positions on the Board of Directors of the Foundation.

The Foundation is included in the financial statements of the University as a blended component unit. A blended component unit is an entity which is legally separate from the University but which is so intertwined with the University that it is, in substance, the same as the University. Separate unaudited financial statements of the Foundation can be obtained from the University.

In preparing the financial statements, all significant transactions and balances between the University and the Foundation are eliminated.

Financial Statement Presentation

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The State of Utah has implemented GASB No. 34 for the year ended June 30, 2002. As a component unit of the State of Utah, the University is also required to adopt GASB No. 34 and No. 35. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows replacing the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets; (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year; and (3) reporting scholarship discounts and allowances on tuition. Accordingly, the University has made a one-time adjustment to reduce beginning net assets for the year-ended June 30, 2002 for the cumulative effect of these changes in the amount of (\$52,736,114).

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002
(continued)

Basis of Accounting

Under the provisions of the GASB standards, the University is permitted to report as a special-purpose government engaged in business-type activities (BTA). BTA reporting requires the University to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund. This includes a Management's Discussion and Analysis, a Statement of Net Assets or Balance Sheet, a Statement of Revenues, Expenses, and Changes in Net Assets, a Statement of Cash Flows, notes to the financial statements, and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

Cash Equivalents

The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the Utah Public Treasurers' Investment Fund are also considered cash equivalents.

Investments

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gains (losses) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets.

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from Federal government, state, and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Uncollectible amounts on accounts receivable are considered minor and therefore, no allowance is recorded.

Inventories

Inventories are carried at the lower of cost or market on the first-in, first-out ("FIFO") method.

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002
(continued)

Restricted Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as noncurrent assets in the statement of net assets.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$3,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that increase the value or extend the useful life of the structure with a cost of \$20,000 or more are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 30 to 40 years for buildings, 20 to 40 years for infrastructure, land improvements and library collections, and 5 to 20 years for equipment.

Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but earned in the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences

Non-academic University employee vacation pay is accrued at year-end for financial statement purposes. The liabilities and expenses incurred are recorded at year-end as a component of compensated absences and termination benefits in the Statement of Net Assets, and as a component of salaries and benefits expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds, notes, and contracts (leases) payable with contractual maturities greater than one year; (2) estimated amounts for compensated absences and termination benefits and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

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

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002
(continued)

Restricted – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational activities and auxiliary enterprises. These resources are used for transactions relating to the education and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any legal purpose. These resources are also used for auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

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

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, and local grants and contracts, and (4) interest on institutional student loans.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Disclosures

The footnotes related to the 2002 financial statements have not been repeated in this report but are available in the separately issued financial statements for the fiscal year ended June 30, 2002. Certain reclassifications have been made to prior year financial statements to conform with the current year presentation.

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002
(continued)

Note B. Cash and Cash Equivalents, Short-term Investments, and Investments

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

Investing is governed by the prudent man rule in accordance with the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. All securities purchased or held and all evidence of deposits and investments are held in the custody of the University or the State. Investment transactions may only be conducted through qualified depositories, certified dealers or directly with issuers of investment securities.

Statutes authorize the University to invest in, among other assets, repurchase agreements; deposits of qualified depositories; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard and Poor's, which has a remaining term to maturity of 270 days or less; bankers' acceptances; obligations of the U. S. Treasury, agencies or instrumentalities; long-term debt of political subdivisions of the State; shares or certificates in an money market mutual fund registered with the Securities and Exchange Commission; and the State Treasurer's investment pool.

Statutes also authorize the University to invest its gift funds according to the rules of the Utah Money Management Council. Those rules allow the University to invest its gift funds in any of the above investments; professionally managed pooled or commingled investment funds, or mutual funds which satisfy certain criteria; and in limited amounts of common stock, convertible preferred stock or convertible bonds of companies whose common stock is listed for trading on a major Securities Exchange or in the NASDAQ National Market System; and in limited amounts of bonds or debentures of any company which carry a rating of "A" or better by Moody's Investment Services, Inc., or Standard and Poor's Corporation.

The Utah Public Treasurer's Investment Fund (Fund) is invested in accordance with the State Money Management Act. The State Money Management Council provides regulatory oversight for the Fund. The fair value of the Fund investments is approximately the same as the stated value of the fund shares at June 30, 2003.

Deposits - At June 30, 2003, the carrying amount of the University's deposits was \$(345,466) and the bank balances were \$829,910. Of the bank balance, \$100,000 was covered by the Federal Deposit Insurance Corporation, and the remaining bank balance of \$729,910 was uninsured and uncollateralized. The State of Utah does not require collateral on deposits. However, the State Commissioner of Financial Institutions monitors financial institutions monthly and establishes limits for deposits of public money.

Investments - The University's investments are categorized to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the University's name.

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
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(continued)

Cash, Cash Equivalents and Investments, including short-term investments, at June 30, 2003 consist of the following:

| | 1 | <u>Category</u> 2 | 3 | Fair Value |
|---|---------------------|----------------------|-------------|----------------------|
| Investments | | | | |
| Negotiable CDs | \$ 114,014 | \$ | \$ | \$ 114,014 |
| Equity Securities | 1,886,581 | | | 1,886,581 |
| U.S. Gov't Securities | 551,650 | | | 551,650 |
| | <u>\$ 2,552,245</u> | <u>\$ -</u> | <u>\$ -</u> | <u>2,552,245</u> |
| Mutual Funds | | | | <u>2,634,190</u> |
| Total Investments | | | | 5,186,435 |
| Cash & Cash Equivalents | | | | |
| Cash on Hand | | | | 20,659 |
| Deposits | | | | (345,466) |
| Utah Public Treasurers' Investment Fund | | | | 29,316,040 |
| Equitrust Money Market Fund | | | | <u>226</u> |
| Total Cash & Cash Equivalents | | | | <u>28,991,459</u> |
| Total Cash, Cash Equivalents, and Investments | | | | <u>\$ 34,177,894</u> |

Cash, Cash Equivalents and Investments are presented in the Statement of Net Assets as follows:

| | |
|--|----------------------|
| Cash and Cash Equivalents | \$ 14,914,211 |
| Short-term Investments | 114,014 |
| Restricted Cash and Cash Equivalents | 14,077,248 |
| Investments | <u>5,072,421</u> |
| Total Cash, Cash Equivalents and Investments | <u>\$ 34,177,894</u> |

According to the Uniform Management of Institutional Funds Act, Section 13-29 of the *Utah Code*, the governing board may appropriate for expenditure for the purposes for which an endowment is established, as much of the net appreciation, realized and unrealized, of the fair value of the assets of an endowment over the historic dollar value as is prudent under the facts and circumstances prevailing at the time of the action or decision.

The endowment income spending policy at June 30, 2003, is 4% of the 12-quarter moving average of the fair value of the endowment pool. The spending policy is reviewed periodically and any necessary changes are made. The net appreciation is a component of restricted, expendable net assets.

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002
(continued)

Note C. Accounts, Interest, and Pledges Receivable

Accounts, Interest and Pledges Receivable consisted of the following at June 30, 2003:

| | <u>Balance</u> |
|--|---------------------|
| Student Tuition and Fees | \$ 309,868 |
| Interest Receivable | 39,625 |
| Contributions and Gifts (Pledges) | 28,971 |
| Auxiliary Enterprises and Other Operating | 508,283 |
| Federal, State, and Private Grants and Contracts | 632,393 |
| Total | <u>\$ 1,519,140</u> |

Note D. Loans Receivable

Student loans made through the Federal Perkins Loan Program (the Program) comprise substantially all of the loans receivable at June 30. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2003 the allowance for uncollectible loans was \$113,800 and at June 30, 2002 was \$109,800.

Note E. Inventories

Inventories at June 30 consisted of Bookstore and Food Service inventories in the amounts of \$949,711 and \$58,030 for 2003 and \$874,044 and \$54,429 for 2002 respectively.

Note F. Prepaid Expenses and Deferred Revenues

Prepaid expenses are those disbursements for goods or services applicable to the subsequent fiscal year when they will be recorded as expenses. Deferred revenues are receipts of funds that are applicable to the subsequent fiscal year when they become earned and recorded as revenues.

Prepaid Expenses and Deferred Revenues at June 30, 2003, consist of the following:

| | <u>Prepaid Expenses</u> | <u>Deferred Revenues</u> |
|-----------------------------|-----------------------------|------------------------------|
| Utah Shakespearean Festival | \$ 2,865,799 | \$ 2,673,048 |
| Student Tuition and Fees | | 809,367 |
| Grants and Contracts | | 340,866 |
| Miscellaneous | 73,884 | 108,043 |
| Total | <u>\$ 2,939,683</u> | <u>\$ 3,931,324</u> |

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002
(continued)

Note G. Capital Assets

Capital assets are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts.

Capital assets at June 30, consists of the following:

| | Balance June 30, 2002 | Additions | Retirements | Balance June 30, 2003 |
|--------------------------------|-----------------------------|-----------------------|---------------------|-----------------------------|
| Land | \$ 7,547,881 | \$ - | \$ - | \$ 7,547,881 |
| Land Imp/Infrastructure | 5,679,705 | 198,361 | | 5,878,066 |
| Buildings | 105,189,805 | 53,290 | (198,708) | 105,044,387 |
| Equipment | 10,866,399 | 683,310 | (253,973) | 11,295,736 |
| Library Collections | 4,720,468 | 403,483 | (104,366) | 5,019,585 |
| Construction in Progress | 780,643 | 634,773 | | 1,415,416 |
| Total | <u>134,784,901</u> | <u>1,973,217</u> | <u>(557,047)</u> | <u>136,201,071</u> |
| Less: Accumulated Depreciation | | | | |
| Land Imp/Infrastructure | 3,607,385 | 198,598 | | 3,805,983 |
| Buildings | 28,945,784 | 2,771,880 | (120,697) | 31,596,967 |
| Equipment | 7,572,645 | 869,904 | (248,284) | 8,194,265 |
| Library Collections | 2,452,350 | 192,305 | | 2,644,655 |
| Total | <u>42,578,164</u> | <u>4,032,687</u> | <u>(368,981)</u> | <u>46,241,870</u> |
| Capital Assets, net | <u>\$ 92,206,737</u> | <u>\$ (2,059,470)</u> | <u>\$ (188,066)</u> | <u>\$ 89,959,201</u> |

Construction in progress at June 30, 2003 of \$1,415,416 relates to the construction of the following projects, funded by revenue bonds and gifts:

| <u>Project</u> | <u>Estimated Costs</u> | <u>Construction in Progress</u> | <u>Percent Completed</u> |
|----------------------------------|----------------------------|-------------------------------------|------------------------------|
| Eccles Living & Learning Center | \$ 11,000,000 | \$ 628,818 | 6% |
| Utah Shakespeare Festival Centre | 78,000,000 | 786,598 | 1% |
| Total | <u>\$ 89,000,000</u> | <u>\$ 1,415,416</u> | |

Note H. Accounts and Interest Payable

Accounts and Interest Payable consisted of the following at June 30, 2003:

| | <u>Balance</u> |
|------------------|---------------------|
| Accounts Payable | \$ 1,024,458 |
| Interest Payable | 142,790 |
| Total | <u>\$ 1,167,248</u> |

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002
(continued)

Note I. Long-Term Liabilities

Activity for the year ended June 30, 2003 was as follows:

| | Balance June 30, 2002 | Additions | Reductions | Balance June 30, 2003 | Current Portion |
|--|-----------------------------|----------------------|---------------------|-----------------------------|---------------------|
| Bonds, Notes, Contracts Payable | | | | | |
| Bonds Payable | \$ 7,755,000 | \$ 10,060,000 | \$ 2,070,000 | \$ 15,745,000 | \$ 550,000 |
| Unamortized Bond Premium | | 288,788 | 4,670 | 284,118 | 18,679 |
| Notes Payable | 1,073,832 | 1,180 | 309,618 | 765,394 | 676,394 |
| Contracts/Leases Payable | 324,881 | 46,014 | 121,227 | 249,668 | 82,791 |
| Remainder Annuity Trusts | 852,275 | | 126,508 | 725,767 | 56,803 |
| Total | <u>10,005,988</u> | <u>10,395,982</u> | <u>2,632,023</u> | <u>17,769,947</u> | <u>1,384,667</u> |
| Other Liabilities | | | | | |
| Compensated Absences | 929,204 | 583,248 | 538,201 | 974,251 | 615,761 |
| Retirement & Other Benefits | 1,423,737 | 467,631 | 543,747 | 1,347,621 | 512,683 |
| Total | <u>2,352,941</u> | <u>1,050,879</u> | <u>1,081,948</u> | <u>2,321,872</u> | <u>1,128,444</u> |
| Total Long-Term Liabilities | <u>\$ 12,358,929</u> | <u>\$ 11,446,861</u> | <u>\$ 3,713,971</u> | <u>\$ 20,091,819</u> | <u>\$ 2,513,111</u> |

Note J. Bonds, Notes and Contracts Payable

Revenue bonds payable consisted of the following at June 30, 2003:

| | Date of Issue | Interest Rate | Original Amount of Issue | Retired or Paid 2002-2003 | Balance 6/30/2003 |
|--------------------------------|---------------------|------------------|--------------------------------|---------------------------------|----------------------|
| Bonds Payable: | | | | | |
| Auxiliary System, Series 1993A | 3/15/1993 | 2.750-5.500% | \$ 4,470,000 | \$ 1,940,000 | \$ - |
| Auxiliary System, Series 1995A | 1/1/1995 | 5.000-6.550% | 4,475,000 | 30,000 | 70,000 |
| Pavilion/Stadium, Series 1995A | 6/1/1995 | 4.600-6.500% | 900,000 | 35,000 | 705,000 |
| Pavilion/Stadium, Series 1996A | 6/1/1997 | 4.850-6.300% | 570,000 | 20,000 | 465,000 |
| Auxiliary System, Series 2002A | 1/22/2002 | 3.000-5.250% | 4,540,000 | 45,000 | 4,445,000 |
| Auxiliary System, Series 2003A | 2/27/2003 | 2.000-5.250% | 10,060,000 | - | 10,060,000 |
| Total Bonds Payable | | | <u>\$ 25,015,000</u> | <u>\$ 2,070,000</u> | <u>\$ 15,745,000</u> |

The scheduled maturities of the revenue bonds are as follows:

| Year | Principal | Interest | Total Payments |
|--------------------------|----------------------|---------------------|----------------------|
| 2004 | \$ 550,000 | \$ 734,265 | \$ 1,284,265 |
| 2005 | 565,000 | 719,320 | 1,284,320 |
| 2006 | 575,000 | 703,202 | 1,278,202 |
| 2007 | 590,000 | 687,690 | 1,277,690 |
| 2008 | 625,000 | 664,315 | 1,289,315 |
| 2009-2013 | 3,565,000 | 2,870,518 | 6,435,518 |
| 2014-2018 | 4,320,000 | 1,891,445 | 6,211,445 |
| 2019-2023 | 4,955,000 | 797,668 | 5,752,668 |
| Total Bonds Outstanding | 15,745,000 | 9,068,423 | 24,813,423 |
| Unamortized Bond Premium | 284,118 | | 284,118 |
| Total Bonds Payable | <u>\$ 16,029,118</u> | <u>\$ 9,068,423</u> | <u>\$ 25,097,541</u> |

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002
(continued)

Principal and interest on these revenue bonds are collateralized by a first lien on and pledge of either (1) Student Center Building Fees, net revenues derived from the operation of the Auxiliary Enterprise System and investment income of the bond security reserve funds or (2) Stadium Facilities Student Building Fees and investment income on the bond security reserve funds. The University is required to maintain certain debt service reserves aggregating \$1,620,000. The University's reserve balances exceed this amount at June 30, 2003.

Defeased Revenue Bonds - In prior years, the University defeased certain revenue bonds by placing the proceeds of new bonds and various bond revenues in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. The total principal amount of the defeased bonds held in irrevocable trusts at June, 30, 2003, is \$4,696,652.

Early Retirement of Bonds - On February 1, 2003 the University completely retired the Auxiliary System Student Building Fee Revenue Bonds, Series 1993A in the amount of \$1,590,000 with an average interest rate of 5.35 percent and a final maturity date of May 1, 2007. The source of the advance payment of these bonds was proceeds from Auxiliary System Student Building Fee Revenue Bonds, Series 2003.

The University undertook this refunding in order to reduce its total debt service payments currently and over the next four years by \$598,654 and to obtain an economic gain (net present value savings) of \$72,919.

Notes Payable - Notes Payable include two interest-free, unsecured notes with equal semi-annual installments of \$37,292 due December 2003 and June 2004 with a continuing equal semi-annual installment of \$11,125 through June 2008; A State Bank of Southern Utah, 6.5% interest, unsecured note payable retired July 31, 2003; A Festival City Development Foundation interest-free loan due on or before June 30, 2004.

Notes payable consisted of the following at June 30, 2003:

| | Date of Issue | Interest Rate | Original Amount of Issue | Retired or Paid 2002-2003 | Balance 6/30/2003 |
|--------------------------------------|---------------------|------------------|--------------------------------|---------------------------------|----------------------|
| Notes Payable: | | | | | |
| PE Bldg Tunnel | 2/1/2000 | 0.000% | \$ 157,000 | \$ 52,334 | \$ 52,332 |
| Jones Theatre Energy | 7/1/2000 | 0.000% | 178,000 | 22,250 | 111,250 |
| State Bank of Southern Utah | 6/1/2001 | 6.500% | 456,600 | | 377,790 |
| Festival City Development Foundation | | 0.000% | 459,056 | 235,034 | 224,022 |
| Total Notes Payable | | | \$ 1,250,656 | \$ 309,618 | \$ 765,394 |

The scheduled maturities of the notes payable are as follows:

| Year | Principal | Interest | Total Payments |
|-------|------------|-----------|-------------------|
| 2004 | \$ 676,394 | \$ 26,575 | \$ 702,969 |
| 2005 | 22,250 | | 22,250 |
| 2006 | 22,250 | | 22,250 |
| 2007 | 22,250 | | 22,250 |
| 2008 | 22,250 | | 22,250 |
| Total | \$ 765,394 | \$ 26,575 | \$ 791,969 |

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002
(continued)

Contracts Payable - Contracts payable; due in equal installments including principal and interest until the last payment comes due in July 2008 secured by equipment costing \$431,359.

Future minimum lease payments for all contracts and capital leases payable as of June 30, 2003 are as follows:

| Year | Principal | Interest | Total Payments |
|-------|-------------------|------------------|-------------------|
| 2004 | \$ 82,791 | \$ 16,340 | \$ 99,131 |
| 2005 | 75,792 | 10,674 | 86,466 |
| 2006 | 61,313 | 5,336 | 66,649 |
| 2007 | 29,252 | 1,310 | 30,562 |
| 2008 | 520 | 3 | 523 |
| Total | <u>\$ 249,668</u> | <u>\$ 33,663</u> | <u>\$ 283,331</u> |

Remainder Annuity and Unitrusts Payable - Remainder Annuity and Unitrusts payable; due in monthly or annual installments for the lifetime of the donors or through the end of the agreement.

Annuities payable consisted of the following at June 30, 2003:

| | Date Created | Interest Rate | Present Value of Annuity Payable | Current Portion |
|--------------------------------------|-----------------|------------------|--|--------------------|
| Charitable Remainder Annuity Trusts: | | | | |
| A M & M M Jones | 1/12/2001 | 5.000% | \$ 167,662 | \$ 39,463 |
| J & C Wadsworth | 9/25/2001 | 6.200% | 439,439 | 12,756 |
| Unitrust: | | | | |
| Rodney A Brown | 7/12/2000 | 7.500% | 118,666 | 4,584 |
| Total Annuities Payable | | | <u>\$ 725,767</u> | <u>\$ 56,803</u> |

The estimates of future annuities payable are as follows:

| Year | Principal | Interest | Payments |
|-----------|-------------------|-------------------|---------------------|
| 2004 | \$ 56,803 | 44,420 | \$ 101,223 |
| 2005 | 59,907 | 41,316 | 101,223 |
| 2006 | 63,183 | 38,040 | 101,223 |
| 2007 | 64,213 | 34,582 | 98,795 |
| 2008 | 22,326 | 31,051 | 53,377 |
| 2009-2013 | 135,503 | 131,382 | 266,885 |
| 2014-2018 | 185,878 | 80,871 | 266,749 |
| 2019-2023 | 137,954 | 22,024 | 159,978 |
| Total | <u>\$ 725,767</u> | <u>\$ 423,686</u> | <u>\$ 1,149,453</u> |

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002
(continued)

Note K. Auxiliary System Bond Revenue Fund

The following schedule reflects the pledged receipts and disbursements of the Bond Revenue Fund of the Auxiliary System and the Stadium Bond System for the year ended June 30, 2003:

Pledged Receipts:

| | | | |
|------------------------------------|--------------|----|------------------|
| Student Center Building Fees | | \$ | 189,198 |
| Investment Income on Reserve Funds | | | 23,155 |
| Operating Revenues | \$ 6,773,501 | | |
| Operating & Maintenance Expenses | (5,824,402) | | |
| Net Operating Receipts | | | 949,099 |
| Total Pledged Net Receipts | | \$ | <u>1,161,452</u> |

Disbursements:

| | | | |
|---|--|----|------------------|
| Transfers to: | | | |
| Debt Service | | \$ | 880,974 |
| Renewal & Replacement Reserves | | | 138,626 |
| Other Lawful Purposes | | | 141,852 |
| Total Disbursements of Pledged Receipts | | \$ | <u>1,161,452</u> |

Note L. Retirement Plans

As required by state law, the University participates in two retirement plans covering substantially all of its regular employees. Faculty and administrative employees participate in the Teachers Insurance and Annuity Association, and all other staff employees participate in the Utah State Retirement System. The total payroll expenses for the year ended June 30, 2003, 2002 and 2001 were \$29,815,803; \$29,883,679 and \$27,508,517, respectively.

The covered payroll expenses and the retirement contributions for each year were as follows:

| Retirement Program | Covered Payroll Expenses | | | |
|---------------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2003 | 2002 | 2001 | 2000 |
| TIAA | \$ 19,762,515 | \$ 19,232,218 | \$ 17,508,319 | \$ 14,385,137 |
| State-Contributory | 66,311 | 66,311 | 61,509 | 59,268 |
| State-Noncontributory | 6,819,194 | 7,046,813 | 6,853,877 | 6,717,867 |
| State-Public Safety | 54,076 | 58,288 | 54,147 | 48,889 |
| | <u>\$ 26,702,096</u> | <u>\$ 26,403,630</u> | <u>\$ 24,477,852</u> | <u>\$ 21,211,161</u> |

| Retirement Program | Retirement Contributions | | | |
|---------------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2003 | 2002 | 2001 | 2000 |
| TIAA | \$ 2,806,277 | \$ 2,730,975 | \$ 2,486,181 | \$ 2,042,689 |
| State-Contributory | 7,898 | 7,898 | 9,343 | 9,287 |
| State-Noncontributory | 811,484 | 838,571 | 1,040,418 | 1,051,927 |
| State-Public Safety | 10,242 | 11,471 | 12,789 | 9,010 |
| | <u>\$ 3,635,901</u> | <u>\$ 3,588,915</u> | <u>\$ 3,548,731</u> | <u>\$ 3,112,913</u> |

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002
(continued)

The Retirement Contributions amount represents the funds which were contributed by the University, which includes 11.91% of covered employees' salaries participating in the Utah State Retirement Contributory System, 11.90% (including 1.5% to a 401(k) salary deferral program) of covered employees' salaries participating in the Utah State Retirement Noncontributory System, 20.44% (including 1.5% to a 401(k) salary deferral program) of covered employees' salaries participating in the Utah State Retirement Public Safety Noncontributory System and 14.20% of covered employees' salaries participating in the Teachers Insurance and Annuity Association. The employees' and employer's shares of the contributions were paid by the University.

Utah Public Employee Contributory, Noncontributory and Public Safety Retirement Systems are multi-employer, cost-sharing, defined benefits plans that are administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Utah State Retirement Board (Board). Beginning July 1, 1986 all new participants in the system must be enrolled in the Noncontributory system or the Public Safety system. Employees enrolled prior to that date could elect to participate in either the Contributory or Noncontributory system. The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Contributory Retirement System, State and School Noncontributory Retirement System, and Public Safety Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems. Teacher's Insurance and Annuity Association issues individual retirement contracts with each participating employee; therefore, the University has no liability for this retirement program.

In addition to providing pension benefits, the University as authorized by its Board of Trustees provided certain health care benefits for retired employees age 65 or older that retired before June 30, 1990. Substantially all regular University employees were eligible for those benefits at normal retirement age 65. These health care benefits for retiree's age 65 or older are not available to employees retiring after June 30, 1990. The cost of retiree health care benefits is funded on a pay-as-you go basis. The total normal retiree health care benefits payments for the years ended June 30, 2003 and 2002, were \$111,750 and \$107,721, respectively. The number of participants for the years ended June 30, 2003 and 2002 was 37 and 39, respectively.

The University as authorized by its Board of Trustees offers an early retirement incentive option to eligible employees that included payment of an amount equal to 22% of the retiree's final salary and the continuation of certain health care insurance premiums until age 65. Substantially all regular University employees are eligible for those benefits after age 56. The cost of early retiree benefits is funded on a pay-as-you-go basis. The total early retiree benefits payments for the years ended June 30, 2003 and 2002 were \$431,997 and \$507,379, respectively. The number of participants for the years ended June 30, 2003 and 2002 was 27 and 32, respectively.

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2003 and 2002
(continued)

Note M. Funds Held in Trust by Others

Funds held in trust by others are neither in the possession of nor under the management of the University. These funds, which are not recorded on the University's financial records and which arose from contributions, are held and administered by external fiscal agents, selected by the donors, who distribute net income earned by such funds to the University, where it is recorded when received. Funds held in trust at June 30, 2003 were \$321,403 at cost and \$317,650 at fair value.

Note N. Functional Classifications

The University's operating expenses by functional classification were as follows:

| | | |
|------------------------------------|-----------|-------------------|
| Instruction | \$ | 19,188,968 |
| Public Service | | 11,739,682 |
| Academic Support | | 3,975,852 |
| Student Services | | 6,344,243 |
| Institutional Support | | 7,110,306 |
| Operation and Maintenance of Plant | | 6,223,293 |
| Student Aid | | 5,345,201 |
| Auxiliary Enterprises Expenditures | | 6,113,149 |
| Depreciation | | 4,032,687 |
| Total Operating Expenses | <u>\$</u> | <u>70,073,381</u> |

Note O. Insurance Coverage

The University insures its buildings, including those under construction, and contents against all insurable risks of direct physical loss or damage through policies administered by the State of Utah Risk Management Fund. This all-risk insurance coverage provides for repair or replacement of damaged property at a replacement cost basis subject to a \$1,000 per occurrence deductible. All revenues from the University operations, rental income for its residence halls, and tuition are insured against loss due to business interruption caused by fire or other insurable perils. Additionally, the University is protected against employee dishonesty exposures under a \$10 million blanket bond. The Utah State Risk Management Fund provides coverage to the University for general, automobile, personal injury, errors or omissions, and malpractice liability at \$10 million per occurrence. The University qualifies as a "governmental body" under the Utah Governmental Immunity Act which limits applicable claim settlements to \$250,000 per person, and \$500,000 per occurrence for bodily injury and \$100,000 for property damage liability. All University employees are covered by worker's compensation insurance, including employer's liability coverage, by the Worker's Compensation Fund of Utah.

Note P. Related Party Transactions

The University receives from the Festival City Development Foundation an in-kind contribution of a portion of the housing needs for actors and technicians participating in the Shakespearean Festival. The value of the donated housing is estimated to be \$80,000. The University (Shakespeare Festival) in turn pays for utilities and maintenance on the buildings owned by the Festival City Development Foundation. The University has not reported the value of the donated housing as gift revenue and (or) operating expenses in the financial statements.

SOUTHERN UTAH UNIVERSITY

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