

**SOUTHERNUTAHUNIVERSITY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For The Year Ended June 30, 2002**  
(Unaudited)

## Introduction

The following discussion and analysis provides an overview of the financial position and activities of Southern Utah University for the year ended 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 follows this section.

Through its more than 100-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 ending 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 this is a transition year to the new formats, only one year of information is presented in the audited financial statements, no comparative data will be presented this first year.

As required by the newly adopted accounting principles, 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. These new standards for external financial reporting for public colleges and universities require that financial statements be presented on a consolidated basis to focus on the university as a whole, with resources classified for accounting and reporting purposes into four net asset categories. Previously, financial statements focused on the accountability of individual fund groups rather than on the university as a whole.

Other significant changes to the financial statements are as follows (amounts involved are included in the notes to the financial statements):

- 1) Revenues and expenses are now categorized as either operating or non-operating. Previously, a measure of operations was not presented. Significant recurring sources of the University's revenues, including state appropriations, gifts and investment income (loss) are considered non-operating, as defined by GASB Statement Number 34. Additionally, expenses are now listed in traditional categories such as salaries, wages, etc. Previously they were categorized by function, e.g. Instruction, Academic Support, Student Aid, etc.
- 2) Pledges from donors are now recorded as receivables and non-operating revenues at the date of the pledge. Previously, pledges were not recorded as revenue until the related gift was received.
- 3) Unexpended cash advances received for sponsored programs are now recorded as deferred revenue. Previously, amounts received were recognized as revenue upon receipt.
- 4) Scholarships and fellowships applied to student accounts are now shown as a reduction in student tuition and fee revenues, while stipends and other payments made directly to students continue to be presented as scholarship and fellowship expenses. Previously, all scholarships and fellowships were presented as expenses.
- 5) Depreciation on capital assets is now recorded as an expense and capital purchases are recorded

as increases in assets. Previously capital purchases were recorded as expenses and depreciation was not recorded.

**SOUTHERN UTAH UNIVERSITY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
(Unaudited) - Continued

**Statement of Net Assets**

The Statement of Net Assets is a listing of the Assets and Liabilities of the University at June 30, 2002 with the difference being the Net Assets. The Net Assets are categorized as “Invested in Capital Assets”, “Restricted” (expendable or non-expendable) 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 a condensed statement of Net Assets as of June 30, 2002. The major changes in Net Assets from the prior year are a result of the current and cumulative effect of changes in accounting principles implemented in the current year.

**Condensed Statement of Net Assets**

<b>Assets</b>	
Current Assets	\$18,338,323
Noncurrent Assets	
Capital Assets	91,426,094
Other Noncurrent Assets	<u>15,394,858</u>
<b>Total Assets</b>	<b>125,159,275</b>
<b>Liabilities</b>	
Current Liabilities	7,711,879
Noncurrent Liabilities	<u>9,753,378</u>
<b>Total Liabilities</b>	<b>17,465,257</b>
<b>Net Assets</b>	
Invested in Capital Assets	83,241,547
Restricted-Nonexpendable	4,185,720
Restricted-Expendable	10,321,384
Unrestricted	<u>9,945,367</u>
<b>Total Net Assets</b>	<b><u>\$107,694,018</u></b>

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

The Statement of Revenues, Expenses and Changes in Net Assets presents the University’s results of operations. The breakdown of “Operating” and “Nonoperating” categories are defined by accounting standards. The University experienced revenue increases in State Appropriations, Government Grants, Sales of Educational and Auxiliary Activities; no change in Tuition and Fees; and a decline in Investment Income. Depreciation, Compensation and Student Aid experienced the greatest increases in the expense category. Depreciation was not recorded in prior years and fixed assets acquisitions were recorded as expenses in the year acquired. This change represents a significant change in reporting of expenses. The following condensed Statement of Revenues, Expenses and Changes in Net Assets is followed by graphs that illustrates the funding sources and uses of the University, including operating, non-operating and other revenues and expenses.

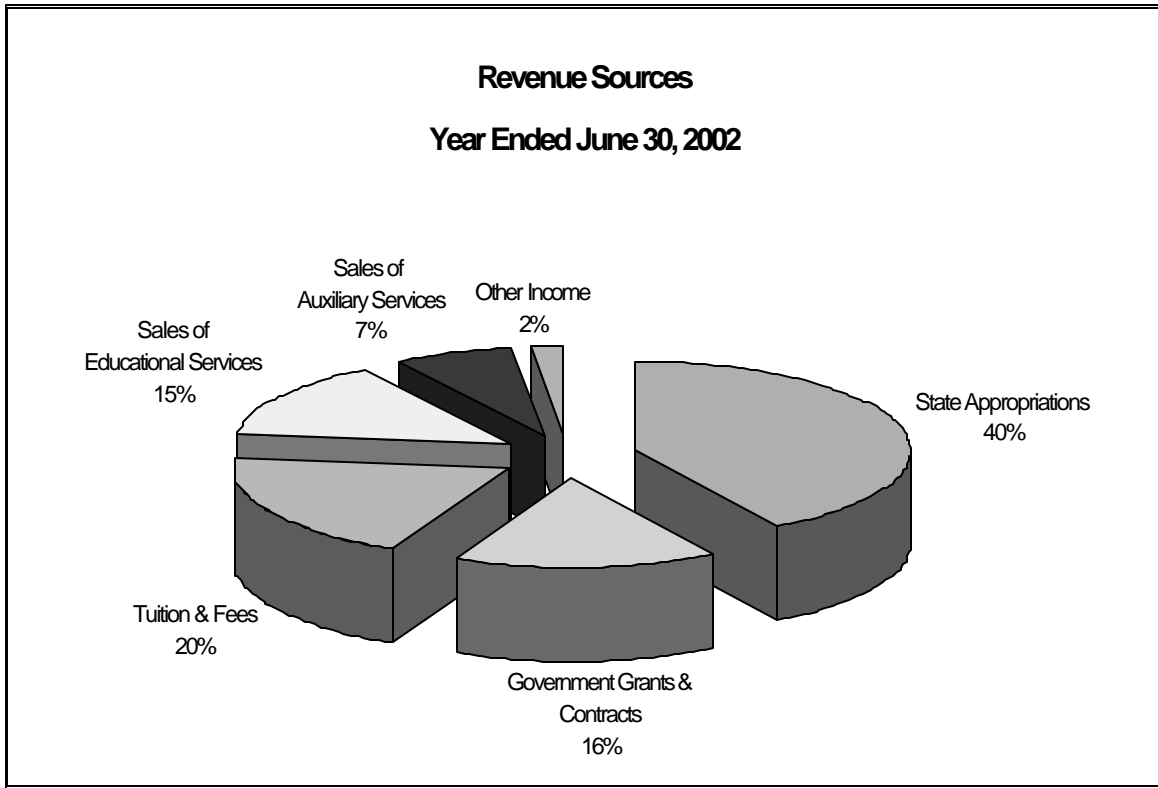
**SOUTHERN UTAH UNIVERSITY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**(Unaudited) - Continued**

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

Operating Revenues	\$ 37,300,547
Operating Expenses	<u>69,236,288</u>
Operating Loss	(31,935,741)
Nonoperating Revenues	27,994,804
Nonoperating Expenses	<u>(431,130)</u>
Nonoperating Income	27,563,674
Other Revenues	<u>3,176,544</u>
Net Decrease in Net Assets	(1,195,523)
Net Assets - Beginning of Year	161,625,655
Prior Period Adjustment	<u>(52,736,114)</u>
Net Assets - Adjusted Beginning of Year	<u>108,889,541</u>
Net Assets End of Year	<u>\$107,694,018</u>

SOUTHERN UTAH UNIVERSITY

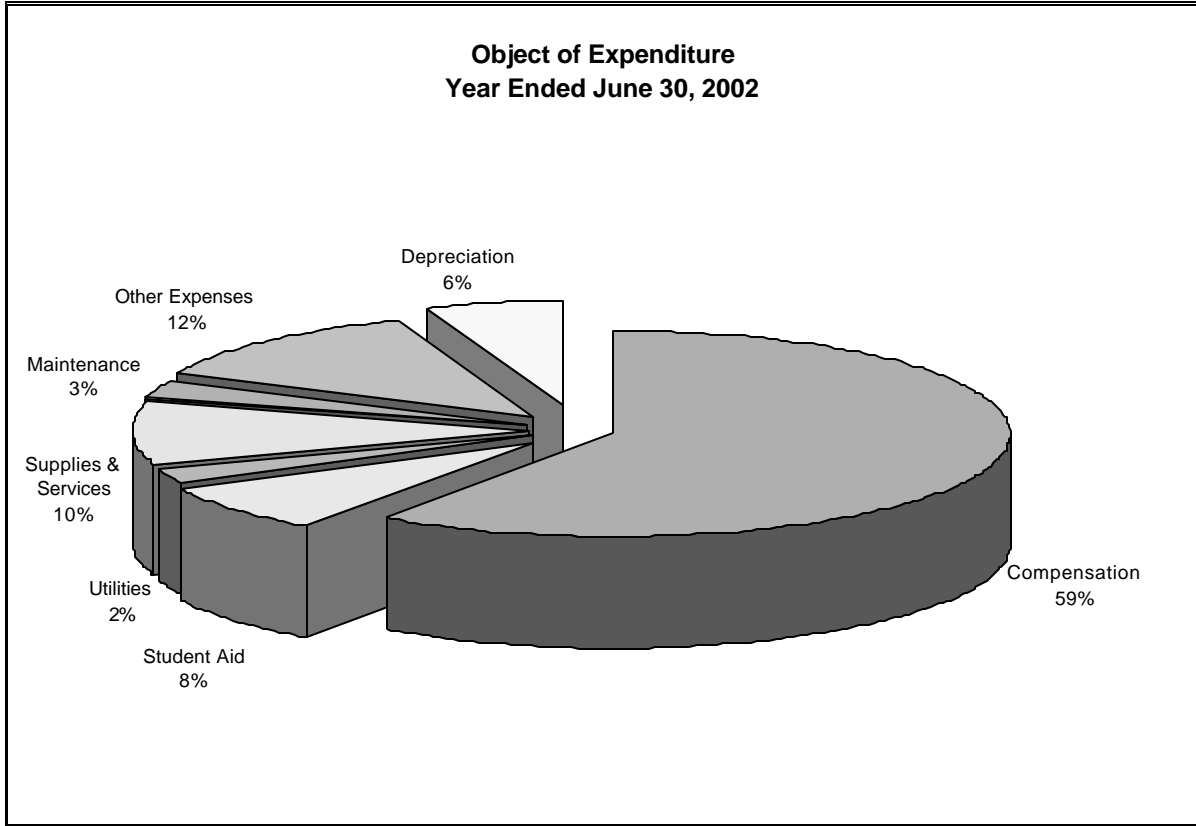
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(Unaudited) - Continued

The State of Utah, not unlike most other states, is experiencing a downturn in revenues. Although the governor and many legislators desire to hold Education harmless from decreased revenues, there have been some



appropriation cuts to Higher Education and to the University. The University also has implemented significant tuition increases to reduce the impact of the cuts and to maintain critical programs.

**Statement of Cash Flows**

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

### Condensed Statement of Cash Flows

Cash Provided (Used) by:	
Operating Activities	\$ (28,062,481)
Noncapital Financing Activities	28,618,897
Capital Financing Activities	799,410
Investing Activities	<u>219,071</u>
Net Change in Cash	1,574,897
Cash - Beginning of Year	<u>15,450,235</u>
Cash - End of Year	<u>\$ 17,025,132</u>

### 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, we will be required to make adjustments to the operation of the University, but will retain our focus on the quality of the educational and social experience of our students.

Related to our vision of providing a residential experience for our students, we are in the process of issuing revenue bonds for approximately \$9 million to construct new residence halls on the campus. This addition of apartment-style dorms will increase the on-campus housing by approximately 300 beds.

### Summary

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

# SOUTHERN UTAH UNIVERSITY

## STATEMENT OF NET ASSETS

June 30, 2002

### ASSETS

Current Assets:	
Cash and Cash Equivalents (Note B)	\$ 12,478,797
Short-term Investments (Note B)	116,246
Accounts, Interest and Pledges Receivable (Note C)	1,316,103
Loans Receivable, Net (Note D)	393,374
Due from State Division of Facilities & Construction Management	171,658
Inventories (Note E)	928,473
Prepaid Expenses (Note F)	2,933,672
<b>Total Current Assets</b>	<b>18,338,323</b>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents (Note B)	4,546,335
Investments (Note B)	6,949,784
Accounts, Interest and Pledges Receivable (Note C)	865,478
Loans Receivable, Net (Note D)	1,995,838
Real Estate	256,780
Construction in Progress (Note G)	780,643
Capital Assets, Net of Accumulated Depreciation (Note H)	91,426,094
<b>Total Noncurrent Assets</b>	<b>106,820,952</b>
<b>Total Assets</b>	<b>125,159,275</b>

### LIABILITIES

Current Liabilities:	
Accounts and Interest payable (Note I)	657,961
Payroll and Withholding Taxes Payable	193,214
Compensated Absences & Termination Benefits (Note J)	1,239,435
Deposits	110,879
Deferred Revenues (Note F)	4,063,179
Funds Held for Others	81,095
Bonds and Contracts Payable (Notes J & K)	1,366,116
<b>Total Current Liabilities</b>	<b>7,711,879</b>
Noncurrent Liabilities:	
Compensated Absences & Termination Benefits (Note J)	1,113,506
Bonds and Contracts Payable (Notes J & K)	8,639,872
<b>Total Noncurrent Liabilities</b>	<b>9,753,378</b>
<b>Total Liabilities</b>	<b>17,465,257</b>

Net Assets:	
Invested in Capital Assets Net of Related Debt	83,563,134
Restricted: Nonexpendable	4,185,720
Expendable	9,999,797
Unrestricted	9,945,367
<b>Total Net Assets</b>	<b>\$ 107,694,018</b>

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 Year Ended June 30, 2002

Operating Revenues:	
Student Tuition and Fees (net of scholarship allowances of \$4,205,633)	\$ 10,197,995
Governmental Grants and Contracts	12,878,402
Sales and Services of Educational Activities	9,513,076
Sales and Services of Auxiliary Enterprises (net of scholarship allowances of \$273,209)	4,647,138
Interest Income on Student Loans	63,936
<b>Total Operating Revenues</b>	<b>37,300,547</b>
Operating Expenses:	
Salaries	29,883,679
Benefits	11,266,536
Depreciation	3,855,046
Repairs and Maintenance	1,900,049
Services and Supplies	6,660,595
Student Aid	5,205,478
Utilities	1,593,652
Other Operating Expenses	8,871,253
<b>Total Operating Expenses</b>	<b>69,236,288</b>
<b>Operating Income (Loss)</b>	<b>(31,935,741)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Government Appropriations - State	27,107,455
Private Gifts and Grants	2,098,445
Investment Income	91,229
Other Nonoperating Revenue	31,008
Interest on Indebtedness	(431,130)
<b>Net Nonoperating Revenue</b>	<b>28,897,007</b>
<b>Income (Loss) Before Other Revenue</b>	<b>(3,038,734)</b>
<b>Other Revenue</b>	
Capital Appropriations	1,125,523
Capital Grants & Gifts	470,839
Additions to Permanent Endowments	246,849
<b>Total Other Revenue</b>	<b>1,843,211</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(1,195,523)</b>
<b>Net Assets - Beginning of Year</b>	<b>161,625,655</b>
Prior Period Adjustment (Note A)	(52,736,114)
<b>Net Assets - Adjusted Beginning of Year</b>	<b>108,889,541</b>
<b>Net Assets - End of Year</b>	<b>\$ 107,694,018</b>

The accompanying notes are an integral part of these financial statements



# SOUTHERN UTAH UNIVERSITY

## Statement of Cash Flows

For the Fiscal Year Ended June 30, 2002

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees	\$ 10,325,958
Receipts from Grants/Contracts	12,875,680
Receipts from Auxiliary and Educational Services	13,997,374
Collection of Loans to Students and Employees	700,640
Loans Issued to Students and Employees	(839,596)
Payments for Employee Services and Benefits	(41,064,195)
Payments to Suppliers	(18,852,864)
Payments for Student Financial Aid	(5,205,478)
Net Cash Provided (Used) by Operating Activities	<u>(28,062,481)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	27,057,455
Gifts/Grants for Other Than Capital Purposes	2,647,926
Receipts for Permanent Endowments	246,849
Net Cash Provided (Used) by Noncapital Financing Activities	<u>29,952,230</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Capital State Appropriations	1,125,523
Receipts from Capital Grants/Gifts	1,593,488
Proceeds from Sale of Capital Assets	31,008
Proceeds from Capital Debt	5,200,273
Purchases of Capital Assets	(2,280,914)
Principal Paid on Capital Debt/Leases	(5,772,171)
Interest Paid on Capital Debt/Leases	(431,130)
Net Cash Provided (Used) by Capital Financing Activities	<u>(533,923)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sale/Maturity of Investments	4,765,689
Receipt of Interest/Dividends from Investments	826,426
Purchase of Investments	(5,373,044)
Net Cash Provided (Used) by Investing Activities	<u>219,071</u>
Net Increase in Cash	1,574,897
Cash & Cash Equivalents--Beginning of Year	15,450,235
Cash & Cash Equivalents--End of Year	<u>\$ 17,025,132</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income (loss)	\$ (31,935,741)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation Expense	3,855,046
Changes in Assets and Liabilities:	
Receivables (Net)	441,238
Student Loans Receivable	(92,483)
Inventories	(65,019)
Prepaid Expenses	170,496
Accounts Payable	(76,912)
Accrued Liabilities	29,988
Accrued Payroll	41,692
Deferred Revenues	(448,462)
Compensated Absences	17,676
Net Cash Provided (Used) by Operating Activities	<u>\$ (28,062,481)</u>

The accompanying notes are an integral part of these financial statements

# SOUTHERN UTAH UNIVERSITY

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**SOUTHERN UTAH UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 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 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 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 cumulative effect of these changes in the amount of (\$52,736,114).

**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 measurement focus and the accrual basis of accounting.

**SOUTHERN UTAH UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**  
**(continued)**

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.

**Restricted Cash and Cash Equivalents, 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.

**SOUTHERN UTAH UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**  
**(continued)**

**Compensated Absences**

Non-academic University employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense 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.

*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.

**SOUTHERN UTAH UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**  
**(continued)**

**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.

**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 gifts 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.

**Cash and Cash Equivalents** - Cash and cash equivalents at June 30, were as follows:

	<u>2002</u>	<u>2001</u>
Cash	\$ (1,719,469)	\$ (1,487,860)
Money Market Fund	680,712	407,116
Public Treasurer's Investment Fund	18,023,706	16,530,979
Equitrust Money Market Fund	40,183	
Total	<u>\$ 17,025,132</u>	<u>\$ 15,450,235</u>

**SOUTHERN UTAH UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**  
**(continued)**

**Deposits** - At June 30, 2002, the carrying amount of the University's deposits was \$(1,057,088) and the bank balances were \$699,372. Of the bank balance, \$18,660 was covered by the Federal Deposit Insurance Corporation, and the remaining bank balance of \$680,712 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.

The Utah State 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, 2002.

**Investments** - The following schedule shows the cost and fair values of the University's 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.

Investments, including short-term investments, at June 30, 2002 consist of the following:

	1	Category 2	3	Fair Value	Cost
Negotiable CDs	\$ 116,246	\$	\$	\$ 116,246	\$ 116,246
Equity Securities	2,118,062			2,118,062	1,388,461
Agencies of Govt (a)	2,243,955			2,243,955	2,200,000
	<u>\$ 4,478,263</u>	<u>\$ -</u>	<u>\$ -</u>	<u>4,478,263</u>	<u>3,704,707</u>
Mutual Funds				<u>2,587,767</u>	<u>3,112,741</u>
Total				<u>\$ 7,066,030</u>	<u>\$ 6,817,448</u>

(a) The University intends to hold these investments until maturity when full par value will be realized.

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, 2002, is 5% 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**  
**JUNE 30, 2002**  
**(continued)**

**Note C. Accounts, Interest, and Pledges Receivable**

Accounts, Interest and Pledges Receivable consisted of the following at June 30, 2002:

	Balance	Current Portion
Student Tuition and Fees	\$ 163,010	\$ 163,010
Interest Receivable	75,153	75,153
Contributions and Gifts (Pledges)	962,636	97,158
Auxiliary Enterprises and Other Operating	623,460	623,460
State Appropriation	50,000	50,000
Federal, State, and Private Grants and Contracts	307,322	307,322
Total	<u>\$ 2,181,581</u>	<u>\$ 1,316,103</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, 2002 the allowance for uncollectible loans was \$109,800.

**Note E. Inventories**

Inventories at June 30 consisted of Bookstore and Food Service inventories in the amounts of \$874,044 and \$54,429 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, 2002, consist of the following:

	Prepaid Expenses	Deferred Revenues
Utah Shakespearean Festival	\$ 2,894,401	\$ 2,864,804
Student Tuition and Fees		661,672
Grants and Contracts		420,393
Miscellaneous	39,271	116,310
Total	<u>\$ 2,933,672</u>	<u>\$ 4,063,179</u>



**SOUTHERN UTAH UNIVERSITY**  
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**JUNE 30, 2002**  
(continued)

**Note G. Construction in Progress**

Construction in progress at June 30, 2002 of \$780,643 relates to the construction of the following project, funded by gifts:

Project	Estimated Costs	Construction in Progress	Percent Completed
Utah Shakespeare Festival Centre	\$ 78,000,000	\$ 780,643	1%
Total	<u>\$ 78,000,000</u>	<u>\$ 780,643</u>	

**Note H. 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 2001	Additions	Retirements	Prior Period Adjustments	Balance June 30 2002
Land	\$ 7,547,881	\$ -	\$ -	\$ -	\$ 7,547,881
Land Imp/Infrastructure	6,104,620			(424,915)	5,679,705
Buildings	109,344,145		(59,610)	(4,094,730)	105,189,805
Equipment	18,082,366	1,067,732	(80,385)	(8,203,314)	10,866,399
Library Collections	4,391,955	394,145	(65,632)		4,720,468
Total	<u>145,470,967</u>	<u>1,461,877</u>	<u>(205,627)</u>	<u>(12,722,959)</u>	<u>134,004,258</u>
Less: Accumulated Depreciation					
Land Imp/Infrastructure	3,625,261	200,525		(218,401)	3,607,385
Buildings	27,017,779	2,602,530	(59,610)	(614,915)	28,945,784
Equipment	12,313,125	876,623	(65,949)	(5,551,154)	7,572,645
Library Collections	3,039,194	175,368		(762,212)	2,452,350
Total	<u>45,995,359</u>	<u>3,855,046</u>	<u>(125,559)</u>	<u>(7,146,682)</u>	<u>42,578,164</u>
Capital Assets, net	<u>\$ 99,475,608</u>	<u>\$ (2,393,169)</u>	<u>\$ (80,068)</u>	<u>\$ (5,576,277)</u>	<u>\$ 91,426,094</u>

**Note I. Accounts and Interest Payable**

Accounts and Interest Payable consisted of the following at June 30, 2002:

	Balance
Accounts Payable	\$ 584,563
Interest Payable	73,398
Total	<u>\$ 657,961</u>

**SOUTHERN UTAH UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**  
(continued)

**Note J. Long-Term Liabilities**

Activity for the year end June 30, 2002 was as follows:

	Balance June 30 2001	Additions	Reductions	Balance June 30 2002	Current Portion
<b>Bonds, Notes, Contracts Payable</b>					
Bonds Payable	\$ 8,660,000	\$ 4,540,000	\$ 5,445,000	\$ 7,755,000	\$ 480,000
Notes Payable	808,560	459,056	193,784	1,073,832	686,228
Contracts/Leases Payable	257,051	201,217	133,387	324,881	103,236
Remainder Annuity Trusts	302,794	573,379	23,898	852,275	96,652
Total	<u>10,028,405</u>	<u>5,773,652</u>	<u>5,796,069</u>	<u>10,005,988</u>	<u>1,366,116</u>
<b>Other Liabilities</b>					
Compensated Absences	882,213	740,311	693,320	929,204	689,760
Retirement Benefits	1,453,052	563,367	592,682	1,423,737	549,675
Total	<u>2,335,265</u>	<u>1,303,678</u>	<u>1,286,002</u>	<u>2,352,941</u>	<u>1,239,435</u>
Total Noncurrent Liabilities	<u>\$ 12,363,670</u>	<u>\$ 7,077,330</u>	<u>\$ 7,082,071</u>	<u>\$ 12,358,929</u>	<u>\$ 2,605,551</u>

**Note K. Bonds, Notes and Contracts Payable**

Revenue bonds payable consisted of the following at June 30, 2002:

	Date of Issue	Interest Rate	Original Amount of Issue	Retired or Paid 2001-2002	Balance 6/30/2002
<b>Bonds Payable:</b>					
Auxiliary System Series 1993A	3/15/1993	2.750%- 5.500%	\$ 4,470,000	\$ 335,000	\$ 1,940,000
Auxiliary System Series 1995A	1/1/1995	5.000%- 6.550%	4,475,000	4,140,000	100,000
Pavilion/Stadium Series 1995A	6/1/1995	4.600%- 6.500%	900,000	35,000	740,000
Pavilion/Stadium Series 1996A	6/1/1997	4.850%- 6.300%	570,000	20,000	485,000
Pavilion/Stadium Series 1996B	6/1/1997	6.400%	945,000	865,000	-
Auxiliary System Series 2002A	1/22/2002	3.000%- 5.250%	4,540,000	50,000	4,490,000
Total Bonds Payable			<u>\$ 15,900,000</u>	<u>\$ 5,445,000</u>	<u>\$ 7,755,000</u>

The scheduled maturities of the revenue bonds are as follows:

Year	Principal	Interest	Total Payments
2003	\$ 480,000	\$ 650,048	\$ 1,130,048
2004	505,000	626,492	1,131,492
2005	540,000	601,203	1,141,203
2006	555,000	310,667	865,667
2007	970,000	282,190	1,252,190
2008-2012	2,995,000	917,259	3,912,259
2013-2017	1,710,000	170,387	1,880,387
Total	<u>\$ 7,755,000</u>	<u>\$ 3,558,246</u>	<u>\$ 11,313,246</u>

**SOUTHERN UTAH UNIVERSITY**  
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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 \$1,061,000. The University's reserve balances exceed these amounts at June 30, 2002.

**Defeased Revenue Bonds** - On March 15, 1993, the University issued \$4,470,000 in Auxiliary System Refunding Revenue Bonds, Series 1993A with an average interest rate of 4.64 percent to advance refund \$3,305,000 of outstanding Refunding and Student Center Bonds - Series 1986 with an average interest rate of 7.76 percent and \$749,000 of outstanding Housing System Bonds, Series C - 1963 and Series D - 1967 with an average interest rate of 3.28 percent. The net proceeds of \$4,291,403 were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Student Center Bonds - Series 1986 and the Housing System Bonds, Series C - 1963 and Series D - 1967. As a result, these bonds are considered to be defeased and the liability has been removed from the University's accounting records. The total principal amount of the defeased bonds held in irrevocable trusts at June 30, 2002, is \$465,000.

On January 22, 2002, the University issued \$4,540,000 in Auxiliary System Refunding Revenue Bonds, Series 2002A with an average interest rate of 4.325 percent to advance refund \$4,110,000 of outstanding Auxiliary System and Student Building Fees Revenue Bonds, Series 1995A with an average interest rate of 6.436 percent. The net proceeds of \$4,511,347 (after payment of \$70,079 in underwriting fees and other issuance costs) were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments of the Auxiliary System and Student Building Fees Revenue Bonds, Series 1995A (except for 100 non-callable bonds that will continue to be the obligation of the University). As a result, these bonds are considered to be defeased and the liability has been removed from the University's accounting records. The total amount of the defeased bonds held in irrevocable trusts at June 30, 2002, is \$4,424,154.

The University undertook this refunding in order to reduce its total debt service payments over the next 13 years by \$189,238 and to obtain an economic gain (net present value savings) of \$180,535.

**Early Retirement of Bonds** - On December 1, 2001 the University completely retired the Pavilion/Stadium Facilities Expansion Student Building Fee Revenue Bonds, Series 1996B in the amount of \$865,000 with an average interest rate of 6.40 percent and a final maturity date of June 1, 2016. The source of the advance payment of these bonds was gift funds and excess pledged revenues of the bond systems.

The following schedule reflects the pledged receipts and disbursements of the Bond Revenue Fund of the Auxiliary System for the year ended June 30, 2002:

**SOUTHERN UTAH UNIVERSITY**  
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**JUNE 30, 2002**

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**Pledged Receipts:**

Student Center Building Fees		\$ 207,575
Investment Income on Reserve Funds		39,659
Operating Revenues	\$ 7,303,809	
O & M Expenses	<u>5,807,292</u>	
Net Operating Receipts		<u>1,496,517</u>
Total Pledged Net Receipts		<u><u>\$ 1,743,751</u></u>

**Disbursements:**

Transfers to:		
Debt Service		\$ 1,135,861
Renewal & Replacement Reserves		200,159
Other Lawful Purposes		<u>406,707</u>
Total Disbursements of Pledged Receipts		<u><u>\$ 1,742,727</u></u>

**SOUTHERN UTAH UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**  
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**Notes Payable** – Notes Payable include two interest-free, unsecured notes with equal semi-annual installments of \$37,292 due December 2002 through June 2004 and a continuing equal semi-annual installments of \$11,125 through June 2008; A Countrywide Home Loan, 7.125% interest, secured mortgage, retired September 2001; A State Bank of Southern Utah, 6.5% interest, unsecured note payable total due June 1, 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, 2002:

	Date of Issue	Interest Rate	Original Amount of Issue	Retired or Paid 2001-2002	Balance 6/30/2002
Notes Payable:					
PE Bldg Tunnel	2/1/2000	0.000%	\$ 157,000	\$ 52,334	\$ 104,666
Jones Theatre Energy	7/1/2000	0.000%	178,000	22,250	133,500
Countrywide Home Loan	9/12/2000	7.125%	42,095	39,210	-
State Bank of Southern Utah	6/1/2001	6.500%	456,600	79,990	376,610
Festival City Development Foundation		0.000%	459,056		459,056
Total Notes Payable			\$ 1,292,751	\$ 193,784	\$ 1,073,832

The scheduled maturities of the notes payable are as follows:

Year	Principal	Interest	Total Payments
2003	\$ 686,228	\$ 22,467	\$ 708,695
2004	298,604		298,604
2005	22,250		22,250
2006	22,250		22,250
2007	22,250		22,250
2008-2012	22,250		22,250
Total	\$ 1,073,832	\$ 22,467	\$ 1,096,299

**Contracts Payable** - Contracts payable; due in equal installments including principal and interest until the last payment comes due in May 2007 secured by equipment costing \$527,274.

Future minimum lease payments for all contracts and capital leases payable as of June 30, 2002 are as follows:

Year	Principal	Interest	Total Payments
2003	\$ 103,236	\$ 22,517	\$ 125,753
2004	81,718	14,889	96,607
2005	62,744	8,687	71,431
2006	52,276	4,652	56,928
2007	24,907	1,127	26,034
Total	\$ 324,881	\$ 51,872	\$ 376,753

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

**SOUTHERN UTAH UNIVERSITY**  
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**SOUTHERN UTAH UNIVERSITY**  
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Annuities payable consisted of the following at June 30, 2002:

	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%	\$ 278,896	\$ 47,846
J & C Wadsworth	9/25/2001	7.620%	451,455	40,001
Unitrust:				
Rodney A Brown	7/12/2000	7.500%	121,924	8,805
Total Annuities Payable			\$ 852,275	\$ 96,652

The scheduled maturities of the annuities payable are as follows:

Year	Payments
2003	\$ 96,652
2004	88,671
2005	83,885
2006	79,389
2007	75,164
2008-2012	227,996
2013-2017	120,211
2018-2022	80,307
Total	\$ 852,275

**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, 2002, 2001 and 2000 were \$29,883,679; \$27,508,517 and \$26,241,994, respectively.

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

Retirement Program	Covered Payroll Expenses			
	2002	2001	2000	1999
TIAA	\$ 19,232,218	\$ 17,508,319	\$ 14,385,137	\$ 13,792,636
State-Contributory	66,311	61,509	59,268	57,605
State-Noncontributory	7,046,813	6,853,877	6,717,867	6,507,285
State-Public Safety	58,288	54,147	48,889	47,345
	\$ 26,403,630	\$ 24,477,852	\$ 21,211,161	\$ 20,404,871

Retirement Program	Retirement Contributions			
	2002	2001	2000	1999
TIAA	\$ 2,730,975	\$ 2,486,181	\$ 2,042,689	\$ 1,958,554
State-Contributory	7,898	9,343	9,287	9,027
State-Noncontributory	838,571	1,040,418	1,051,927	1,019,041
State-Public Safety	11,471	12,789	9,010	8,442
	\$ 3,588,915	\$ 3,548,731	\$ 3,112,913	\$ 2,995,064

**SOUTHERN UTAH UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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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, 21.18% (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 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, 2002 and 2001, were \$107,721 and \$103,681, respectively. The number of participants for the years ended June 30, 2002 and 2001 was 39 and 40, respectively.

The University 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, 2002 and 2001 were \$484,961 and \$351,230, respectively. The number of participants for the years ended June 30, 2002 and 2001 was 32 and 24, respectively.

**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, 2002 were \$359,122 at cost and \$336,253 at fair value.



**SOUTHERN UTAH UNIVERSITY**  
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**Note N. Functional Classifications**

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

Instruction	\$	19,303,695
Public Service		11,324,730
Academic Support		3,718,208
Student Services		6,630,659
Institutional Support		6,167,210
Operation and Maintenance of Plant		6,621,326
Student Aid		5,205,478
Auxiliary Enterprises Expenditures		6,409,936
Depreciation		<u>3,855,046</u>
Total Operating Expenses	\$	<u><u>69,236,288</u></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. Subsequent Events**

The University is in the process of issuing revenue bonds for approximately \$9 million to construct new residence halls on campus. The bonds will be secured by a pledge of the net revenues derived from the operation of the Auxiliary Enterprise System.

# SOUTHERN UTAH UNIVERSITY

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