

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.

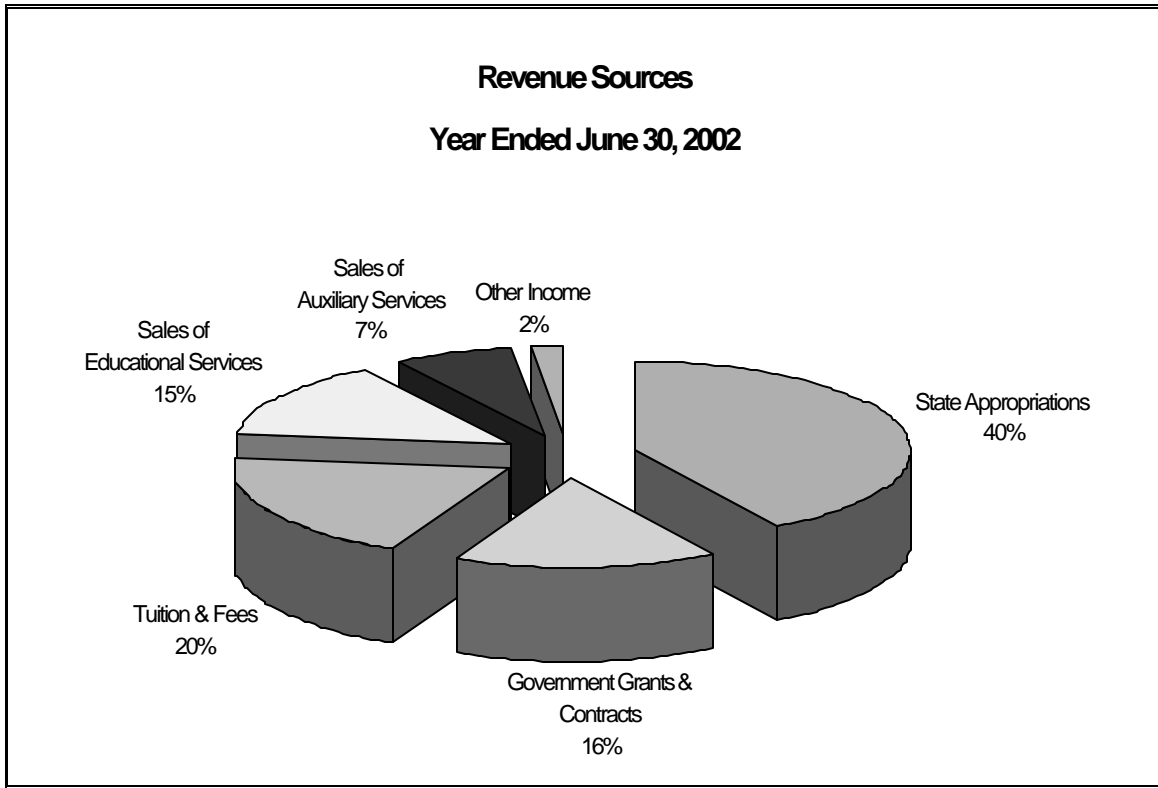
Through its more than 100-year history, Southern Utah University has evolved from a teacher training school into its current role as a comprehensive, regional university. It serves the southern region of Utah and the

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

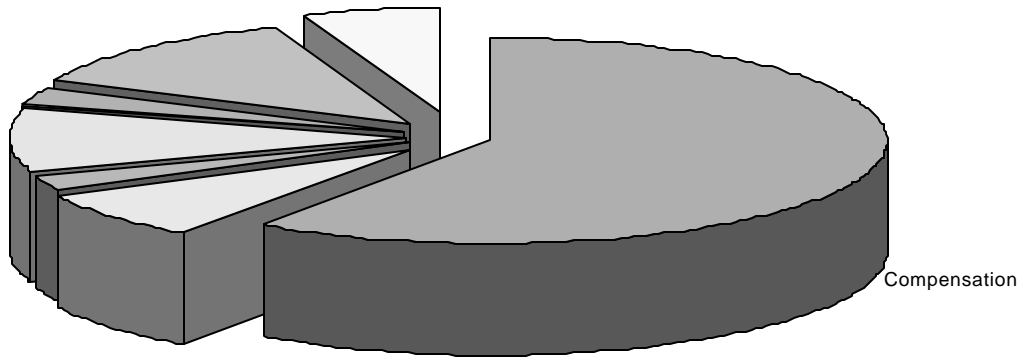


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(Unaudited) - Continued

**Object of Expenditure
Year Ended June 30, 2002**



Condensed Statement of Cash Flows

Cash Provided (Used) by:

Operating Activities	\$ (28,062,481)
Noncapital Financing Activities	28,618,897

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
Total Operating Revenues	37,300,547
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
Total Operating Expenses	69,236,288
Operating Income (Loss)	(31,935,741)
Nonoperating Revenues (Expenses)	
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)
Net Nonoperating Revenue	28,897,007
Income (Loss) Before Other Revenue	(3,038,734)
Other Revenue	
Capital Appropriations	1,125,523
Capital Grants & Gifts	470,839
Additions to Permanent Endowments	246,849
Total Other Revenue	1,843,211
Increase (Decrease) in Net Assets	(1,195,523)
Net Assets - Beginning of Year	161,625,655
Prior Period Adjustment (Note A)	(52,736,114)
Net Assets - Adjusted Beginning of Year	108,889,541
Net Assets - End of Year	\$ 107,694,018

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

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

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 is reported in the accompanying financial statements. However,

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	\$ 2,181,581	\$ 1,316,103

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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
Bonds, Notes, Contracts Payable					
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>
Other Liabilities					
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
Bonds Payable:					
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
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 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 \$1,061,000. 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 ,511

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SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

(continued)

Pledged Receipts:

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

Disbursements:

Transfers to:			
Debt Service		\$	1,135,861
Renewal & Replacement Reserves			200,159

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

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	\$ 191,784	\$ 1,100,967

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

SOUTHERN UTAH UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 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, 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 administr(-) T nt hein Ch8567 Tw (arn3 49 o) Tj3j 216

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

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 and 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

UTAH STATE BOARD OF REGENTS

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Marlon O. Snow.....	West Valley City
Maria Sweeten	Salt Lake City
Cecilia H. Foxley, Commissioner and Chief Executive Officer	Salt Lake City

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