

From the President . . .

Utah State University's current marketing motto is one word: **Think**. That seems especially appropriate as we consider the state of the University in the fiscal year that ended June 30, 2003. The bad news also happens to be the good news: Our budget reductions reached a cumulative 11.7 percent during the year, as anticipated, but no further cuts are on the horizon at this time.

The reality is that, like most public institutions, we are highly impacted by an erratic economy. That is why we have taken the Aggie bull by the horns and not waited to be victimized by fiscal forces beyond our control. We have our blue-sky hopes and dreams, but we are focused very much on where the University is, where we want to go, and what we must do to get there. In short, we **Think** hard at every level of the University, and act confidently on our best thinking.



Our mission statement sets our sites on becoming one of the nation's premier space-grant and land-grant universities. We have 10 University-wide goals, and individual goals in 120 campus units to get us there. We welcome open accountability in meeting them. Indeed, we issue an overall public "dashboard" each month that charts our performance in 30 significant measures of activity. Paper copies of dashboards are available in my office, and electronic copies are on the University website. (Go to Planning and Analysis, Compact Plan, USU Performance Dashboard.)

We invest resources where they are likely to bring the best return. Precious budget dollars no longer are distributed evenly across campus. They are weighted in favor of faculty and staff who are making genuine progress in accomplishing valued goals. Meanwhile we are entrepreneurial to create a bigger revenue pie. During the past fiscal year research revenues reached a record \$141 million – eclipsing our \$124 million in state funds – along with \$10 million in other grants.

Focusing energetically has led to quite remarkable results over the past year – some of which were shared with millions of people across the nation and the world via the mass media.

- Mechanical engineering students, inspired by the challenge from two professors, built the Wright Flyer – a replica of one of the Wright Brothers' first planes – and flew it at events across the country celebrating the 100th anniversary of powered flight.
- In collaboration with the University of Idaho, an Agriculture and Biotechnology researcher cloned the world's first equine – a mule. Then we did it twice more. Cloning may show science how to reverse crippling diseases and find new ways to create organs for transplant.

- Family and Human Development faculty shared the benefits and importance of the family dinner hour – with 38 million readers of *Better Homes and Gardens*.
- Meanwhile, quietly in the classroom and lab, Aggie students continued to far outdistance most of their peers by being accepted into professional programs at high rates, including 85 percent into medical school vs. the national average of 45 percent.

Certainly we do not have all the answers to the concerns facing us and likely to face us in the coming months and years. But our approach is clear and it's working. You may be sure that whatever challenge comes our way, we will **Think** very hard and then act vigorously to meet it.

We continue to streamline our financial reporting systems to make them more readable and easily understood. The financial statements that follow are prepared according to generally accepted accounting principles established by the Governmental Accounting Standards Board. These principles are recommended by the American Institute of Certified Public Accountants and the National Association of College and University Business Officers.

The certified public accounting firm of Deloitte & Touche has audited the financial statements for the year ended June 30, 2003. Their definitive opinion is included with this report. The financial highlights and statements are intended to establish the University's financial position as of June 30, 2003. They are also intended to reflect the flow of financial resources to the University during the fiscal year 2002-2003, while disclosing how these resources are applied in accomplishing our mission. We are pleased to share this report with you.

Best Wishes,

A handwritten signature in black ink that reads "Kermit L. Hall". The signature is written in a cursive style with a large, stylized "K" and "H".

President Kermit L. Hall





INDEPENDENT AUDITORS' REPORT

To the Utah State University Board of Trustees
and Kermit L. Hall, President

We have audited the accompanying statement of net assets of Utah State University (the "University"), a component unit of the State of Utah, as of June 30, 2003, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. 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 audit. We did not audit the financial statements of Utah State University Research Foundation (a component unit of the University), which represents 9% of total assets as of June 30, 2003 and 17% of total revenues for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Utah State University Research Foundation, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, such financial statements present fairly, in all material respects, the financial position of the University at June 30, 2003, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by GASB. 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.

Deloitte & Touche LLP

November 19, 2003

**Management's Discussion and Analysis
For the Year Ended June 30, 2003
(Unaudited)**

Overview of Financial Statements and Financial Analysis

The Management's Discussion and Analysis is designed to provide an easily readable analysis of Utah State University's (University's) financial activities based on facts, decisions, and conditions known at the date of the auditor's report. Utah State University's financial statements for fiscal year 2003, with fiscal year 2002 prior year data presented for comparative purposes only are presented below. The financial statements, footnotes, and this discussion are the responsibility of management. This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis – for Public Colleges and Universities*. These financial statements differ significantly in both the form and the accounting principles utilized prior to fiscal year 2002. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets outlines the University's financial condition at fiscal year end. The University has selected a fiscal year beginning July 1, and ending June 30. This statement reflects the various assets, liabilities, and net assets of the University as of the fiscal year ended June 30, 2003.

From the data presented, readers of the Statement of Net Assets have the information to determine the assets available to continue the operations of the University. They may also be able to determine how much the University owes vendors, investors and lending institutions. Finally, the Statement of Net Assets outlines the net assets (assets minus liabilities) available to the University and defines what that availability is.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the University's equity in property, plant and equipment owned by the University. The second category is restricted net assets, which is divided into two categories, non-expendable and expendable. The corpus of non-expendable restricted resources as it pertains to endowments is only available for investment purposes. Donors have primarily restricted income derived from these investments to fund scholarships and fellowships. The corpus of non-expendable restricted resources as it pertains to loan funds is only available for the purpose of issuing loans to students under the terms of the various donor and Federal government agreements. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The last category, unrestricted net assets, discloses the net assets available to the University for any lawful purpose of the University.

Condensed Statements of Net Assets

	June 30, 2003	June 30, 2002	Change	% Change
Assets				
Current assets	\$214,145,028	\$189,261,788	\$24,883,240	13.15%
Non-current assets				
Capital	330,335,250	307,044,665	23,290,585	7.59%
Other	52,947,476	50,659,561	2,287,915	4.52%
Total assets	<u>597,427,754</u>	<u>546,966,014</u>	<u>50,461,740</u>	<u>9.23%</u>
Liabilities				
Current liabilities	78,528,341	76,376,684	2,151,657	2.82%
Non-current liabilities	67,256,955	38,143,695	29,113,260	76.33%
Total liabilities	<u>145,785,296</u>	<u>114,520,379</u>	<u>31,264,917</u>	<u>27.30%</u>
Net assets				
Invested in capital assets, net of debt	280,754,234	272,181,448	8,572,786	3.15%
Restricted – non-expendable				
Primarily scholarships and fellowships	35,441,128	34,628,526	812,602	2.35%
Loans	12,913,969	13,035,607	(121,638)	(0.93%)
Restricted – expendable	70,623,999	65,014,849	5,609,150	8.63%
Unrestricted	51,909,128	47,585,205	4,323,923	9.09%
Total net assets	<u>\$451,642,458</u>	<u>\$432,445,635</u>	<u>\$19,196,823</u>	<u>4.44%</u>

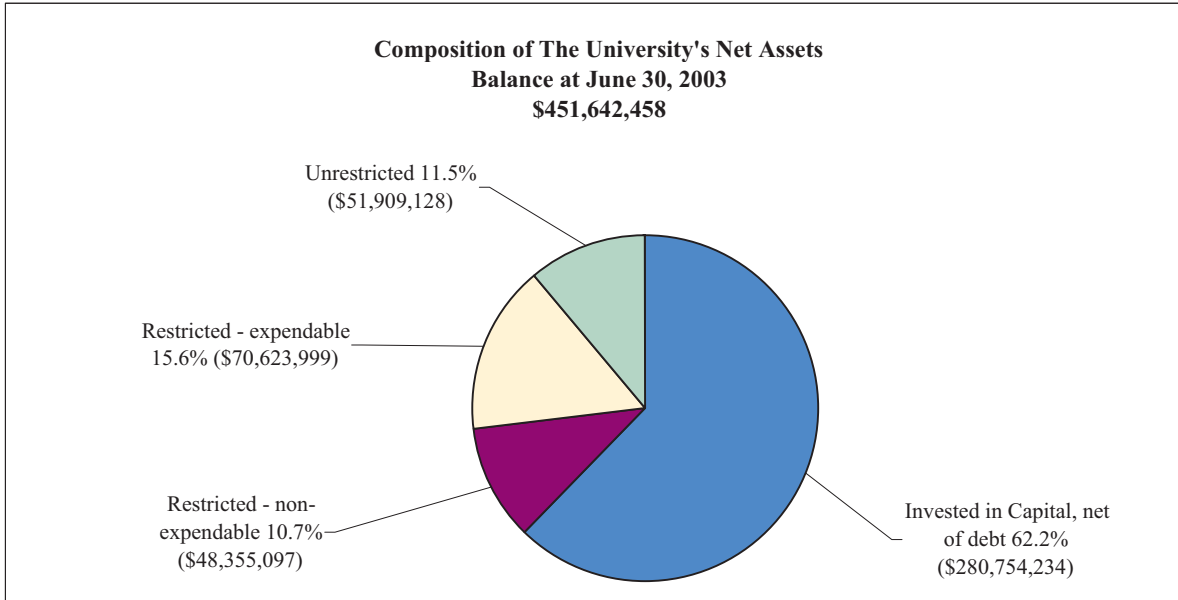
Statement of Net Assets (continued)

In fiscal year 2003, the University's net assets increased by \$19,196,823. The amount invested in capital assets net of debt increased \$8,572,786. Restricted non-expendable assets increased \$690,964 while restricted expendable assets increased by \$5,609,150. Unrestricted net assets increased \$4,323,923.

Current assets increased \$24,883,240. This increase is largely due to the establishment of a construction fund of approximately \$10.4 million from bond funds, a \$4.9 million increase in prepaid expenses, a net increase in cash and cash equivalents of \$5.6 million, and an overall increase in accounts receivable of \$3.2 million.

Non-current liabilities increased \$29,113,260 reflecting the University's financing activities which included a new research and refunding bond of \$23.7 million and various lease/purchase financings of approximately \$7.7 million.

The composition of the University's net assets is displayed in the following graph:



**Net Assets
Fiscal Year Ended June 30**

	2003	2002
Invested in capital assets, net of debt	\$280,754,234	\$272,181,448
Restricted - non-expendable		
Non-expendable	48,355,097	47,664,133
Expendable	70,623,999	65,014,849
Unrestricted	51,909,128	47,585,205
Total net assets	\$451,642,458	\$432,445,635

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present the revenues received by the University, both operating and non-operating, and the expenses paid by the University, operating and non-operating, and any other revenues, expenses, gains and losses received or expended by the University.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Non-operating revenues are revenues received for which goods and services are not provided. For example, state appropriations are non-operating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services in return for those revenues. As noted below, without the non-operating revenues, in particular the state appropriations and private gifts, the University would not be able to cover its costs of operations. These sources are critical to the University's financial stability and directly impact the quality of its programs.

Statement of Revenues, Expenses and Changes in Net Assets (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>Fiscal Year 2003</u>	<u>Fiscal Year 2002</u>	<u>Change</u>	<u>% Change</u>
Operating revenues				
Tuition and fees (net of scholarship allowances: 2003 - \$23,680,097; 2002 - \$22,212,675)	\$47,356,409	\$46,803,490	\$552,919	1.18%
Contracts, grants and Federal appropriations	155,467,675	135,461,092	20,006,583	14.77%
Auxiliary enterprises	32,625,680	32,245,390	380,290	1.18%
Other	23,076,688	23,702,224	(625,536)	(2.64%)
Total operating revenues	258,526,452	238,212,196	20,314,256	8.53%
Operating expenses				
Salaries and wages	173,141,870	169,916,180	3,225,690	1.90%
Employee benefits	59,603,348	54,241,916	5,361,432	9.88%
Other operating expenses	120,232,117	117,314,556	2,917,561	2.49%
Scholarships and fellowships	14,155,740	13,034,335	1,121,405	8.60%
Depreciation	20,613,153	18,752,539	1,860,614	9.92%
Total operating expenses	387,746,228	373,259,526	14,486,702	3.88%
Operating loss	(129,219,776)	(135,047,330)	5,827,554	4.32%
Non-operating revenues				
State appropriations	124,048,756	129,039,443	(4,990,687)	(3.87%)
Private Gifts	8,304,180	6,546,064	1,758,116	26.86%
Other	7,861,985	4,681,075	3,180,910	67.95%
Net non-operating revenues	140,214,921	140,266,582	(51,661)	(0.04%)
Income before other revenues, expenses, etc.	10,995,145	5,219,252	5,775,893	110.67%
State appropriations for capital purposes	3,564,368	39,207,436	(35,643,068)	(90.91%)
Grants, contracts and gifts for capital purposes	8,566,277	2,498,215	6,068,062	242.90%
Additions to permanent endowments	985,657	1,004,665	(19,008)	(1.89%)
Other additions/(deduction) – net	(4,914,624)	(3,375,980)	(1,538,644)	(45.58%)
Total other revenues	8,201,678	39,334,336	(31,132,658)	(79.15%)
Increase in net assets	19,196,823	44,553,588	(25,356,765)	(56.91%)
Net assets – beginning of year	432,445,635	387,892,047	44,553,588	11.49%
Net assets – end of year	\$451,642,458	\$432,445,635	\$19,196,823	4.44%

The Statement of Revenues, Expenses and Changes in Net Assets (SRECNA) reflects a \$19,196,823 increase in net assets for the fiscal year ended June 30, 2003.

As noted in the SRECNA, the University experienced a net operating loss in fiscal year 2003 of \$129,219,776. This operating loss highlights the University's dependency on non-operating revenues, state appropriations and private gifts, to meet its cost of operations and provide funds for the acquisition of capital equipment.

In fiscal year 2003, the University received \$124,048,756 from State Appropriations and \$8,304,180 in private gifts. These revenues along with an additional \$7,861,985 from other sources covered the University's operating loss of \$129,219,776.

The University also receives funds for capital purposes and as additions to its permanent endowment funds. During fiscal year 2003 the University received for capital purposes \$3,564,368 from state appropriations and \$8,566,277 from grants, contracts and private gifts. Donations to the University's permanent endowment funds were \$985,657.

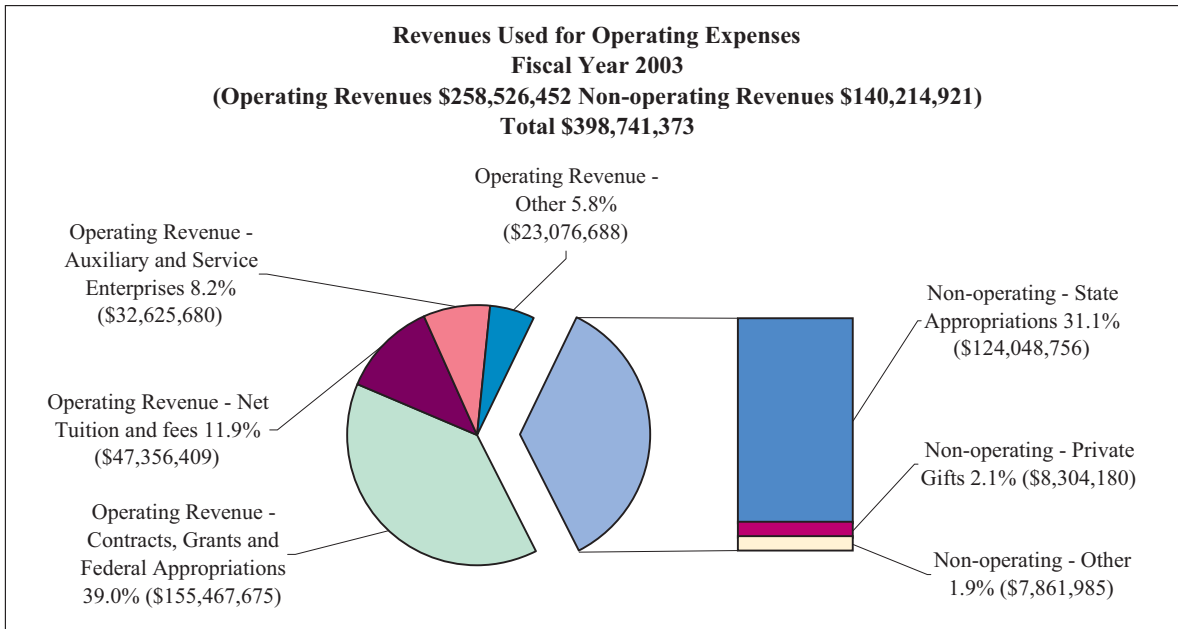
Statement of Revenues, Expenses and Changes in Net Assets (continued)

The University experienced significant increases in revenues from contracts and grants during fiscal year 2003. Revenues from this source increased \$20,006,583 up 14.77% from fiscal year 2002. This increase reflects the University's involvement in research and education.

Also significant to the University's ability to meet its academic goals was the decrease in state appropriations. The University received \$4,990,687 less in state appropriated funds during fiscal year 2003 as compared to fiscal year 2002. This decrease is the beginning of a cumulative budget reduction totaling 11.7%. The full impact of this budget reduction will be realized by the end of fiscal year 2004.

The University is dealing with the reduction in state appropriations by reducing costs supported by the state appropriations. Hiring freezes have been implemented and some staff positions have been eliminated. Operating costs supported by state appropriations have also been reduced.

The following graph reflects the University's sources of revenue available to meet current operating costs.



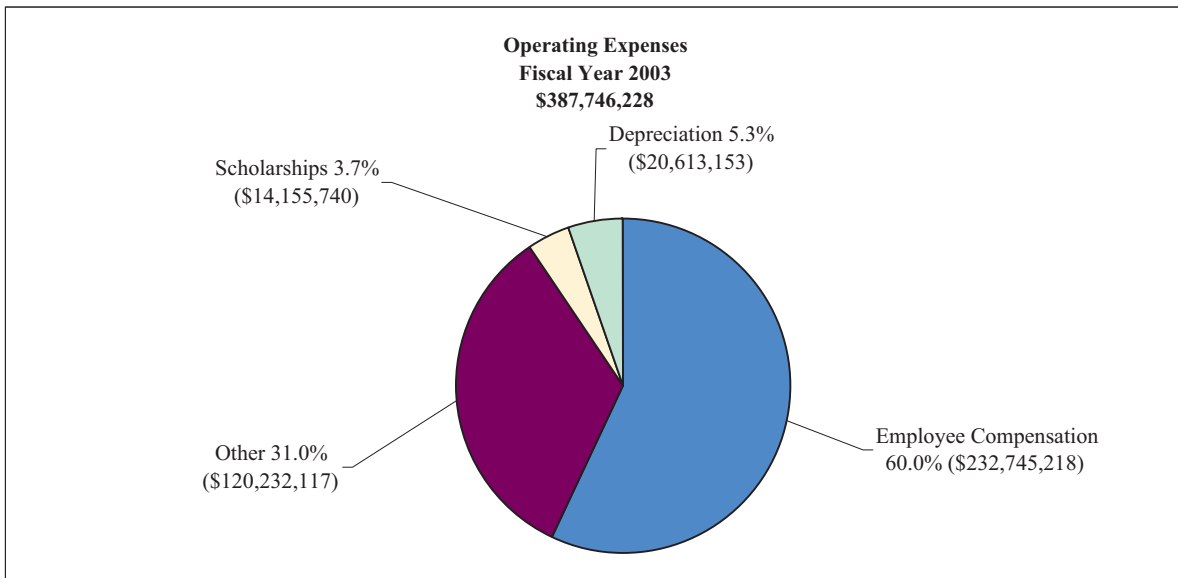
**Revenues Used for Operating Expenses
Fiscal Year Ended June 30**

	2003	2002
Operating revenue		
Contracts, Grants and Federal Appropriations	\$155,467,675	\$135,461,092
Net Tuition and fees	47,356,409	46,803,490
Auxiliary and Service Enterprises	32,625,680	32,245,390
Other	23,076,688	23,702,224
Total operating revenues	258,526,452	238,212,196
Non-operating revenue		
State Appropriations	124,048,756	129,039,443
Private Gifts	8,304,180	6,546,064
Other	7,861,985	4,681,075
Total non-operating revenues	140,214,921	140,266,582
Total revenues	\$398,741,373	\$378,478,778

The University's most important resource is its outstanding faculty and staff. In fiscal year 2003, 60.0% of the University's total operating expenses were for employee compensation. Even though the major portion of the operating expenses are focused on employee compensation, the University still needs to focus on being more competitive with peer institutions and non-academic employers in order to recruit and retain this important resource that so directly impacts the University's ability to accomplish its mission.

Statement of Revenues, Expenses and Changes in Net Assets (continued)

The graph below outlines the University's operating expenses by object.



**Operating Expenses
Fiscal Year Ended June 30**

	2003	2002
Employee Compensation	\$232,745,218	\$224,158,096
Other operating	120,232,117	117,314,556
Depreciation	20,613,153	18,752,539
Scholarships	14,155,740	13,034,335
Total Expenses	\$387,746,228	\$373,259,526

Statement of Cash Flows

The final statement presented by Utah State University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University during the fiscal year. The statement is divided into five sections. The first section deals with operating cash flows and shows the net cash used by operating activities. The second section includes cash flows from non-capital financing activities. This section includes the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section includes cash flows from capital assets and related financing activities. This section includes the cash used for the acquisition and construction of capital assets and related items. The fourth section includes the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. A condensed version of these first four sections is provided below. The fifth section of the Statement of Cash Flows is not included in the Condensed Statement of Cash Flows. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets. This reconciliation is available for review in Schedule C of the financial statements.

Condensed Statement of Cash Flows

	Fiscal Year 2003	Fiscal Year 2002	Change	% Change
Cash provided (used) by:				
(1) Operating activities	(\$108,955,124)	(\$119,998,152)	\$11,043,028	9.20%
(2) Non-capital financing activities	134,589,747	138,936,712	(4,346,965)	(3.13%)
(3) Capital and related financing activities	(15,095,643)	(22,847,127)	7,751,484	33.93%
(4) Investing activities	(4,947,032)	4,191,229	(9,138,261)	(218.03%)
Net increase in cash and cash equivalents	5,591,948	282,662	5,309,286	1878.32%
Cash and cash equivalents, beginning of year	130,926,083	130,643,421	282,662	0.22%
Cash and cash equivalents, end of year	<u>\$136,518,031</u>	<u>\$130,926,083</u>	<u>\$5,591,948</u>	<u>4.27%</u>

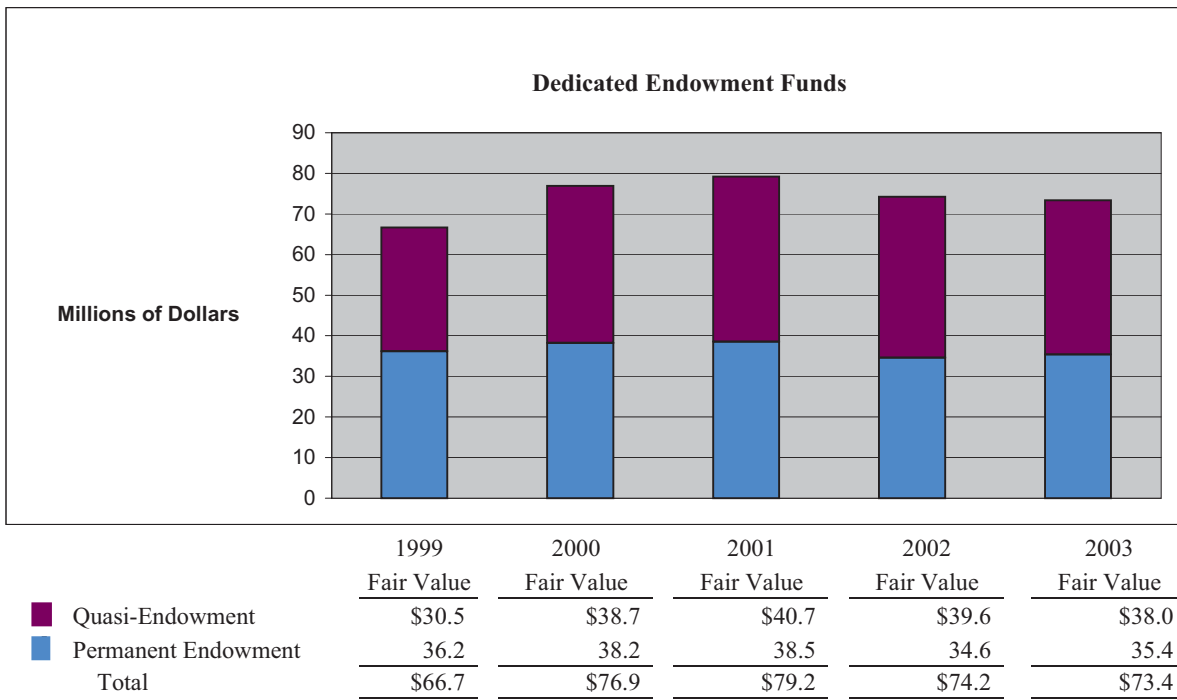
Statement of Cash Flows (continued)

The University experienced an increase in cash and cash equivalents during fiscal year 2003. This increase of \$5,591,948 left the University with a cash and cash equivalent balance at year end in the amount of \$136,518,031.

Endowment and Similar Funds

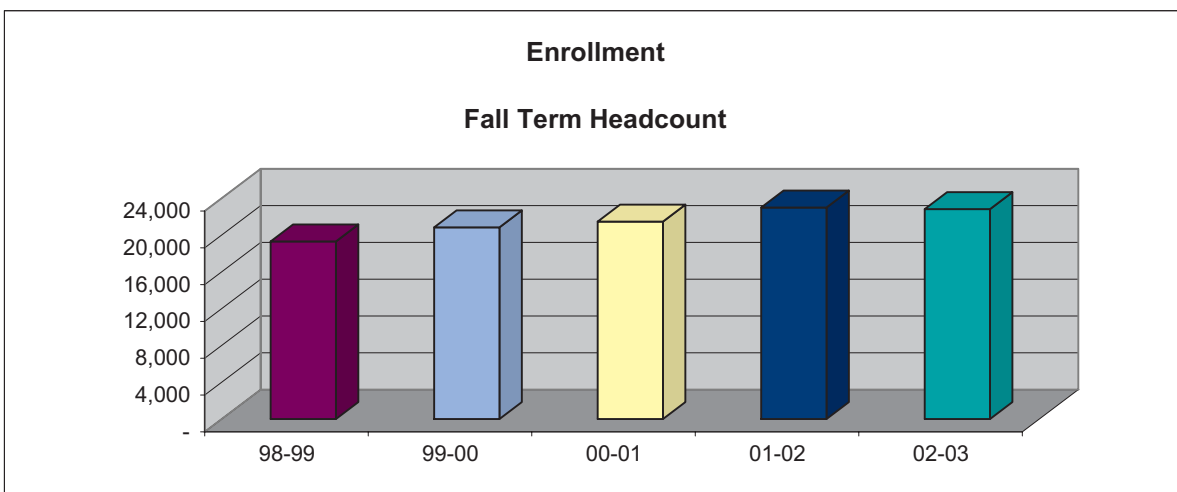
Over the years, the University has received donations with the stipulation that only the income earned is to be used. The principal must remain inviolate in perpetuity. The donors have primarily restricted the use of the income derived from these funds for scholarships and fellowships; therefore, the University's endowment plays a key role in providing scholarship funding to our students. Over the past few years, a declining market and the need to maintain the principal balances of the endowments has impaired the University's ability to provide scholarships to students. In some cases the original donors have generously donated additional funds to supplement the endowment income allowing the scholarships to be fully funded.

The carrying value of the endowment and similar funds as of June 30, 2003 was \$73,395,834, down \$775,073 from June 30, 2002. The carrying value is comprised of \$35,441,128 of restricted non-expendable assets and \$37,954,706 of restricted expendable net assets. Below is a graph presenting the carrying value of the endowment and similar funds over the past five years.

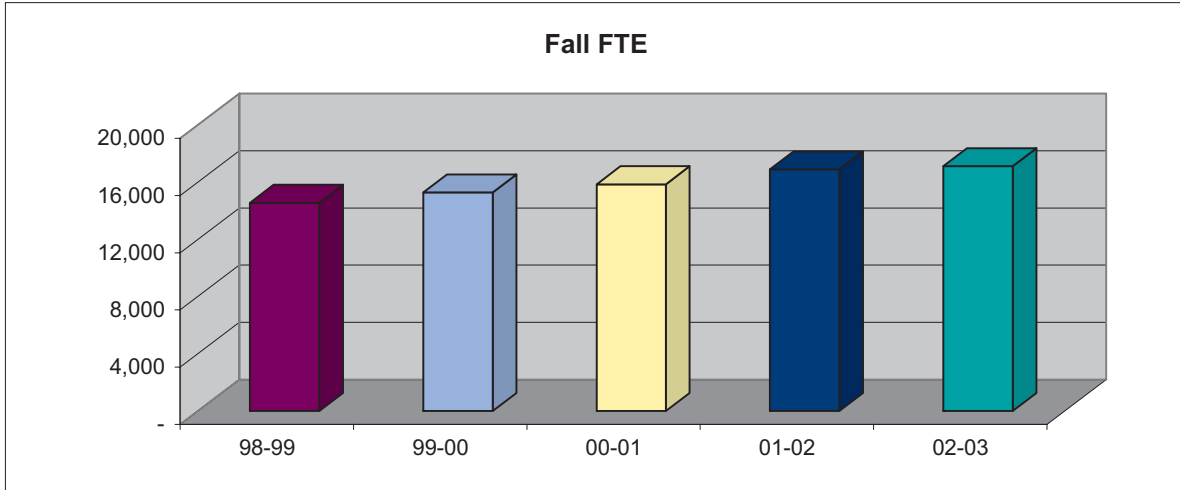


Enrollment

While tuition rates have increased substantially over the past years the total number of full time students has continued to increase each year. Below is a graph presenting the head count and full time equivalent student enrollment.



Enrollment (continued)



Capital Asset and Debt Administration

In July 2003, the University issued \$23,735,000 Refunding and Research Revenue Bonds, Series 2002A. The funds from this bond are being used to acquire, construct, furnish and equip three research facilities including related office space. Funds from this bond were also used to advance refund \$3,515,000 of the outstanding Research and Refunding Revenue Bonds, Series 1995A, which mature on December 1 of the years 2006 through 2010.

The University has negotiated a lease purchase agreement to fund a co-generation power and central chilled water plant. Energy savings will be the source of debt service for this project.

In fiscal year 2003, the University issued a private placement bond for \$705,000 to acquire 500 acres of farmland. The University is pursuing, in fiscal year 2004, a revenue bond issue for approximately \$42,000,000 to provide student housing and dining facilities.

See notes E, H, and I of the financial statements for more detailed information.

Economic Outlook

During fiscal year 2003, the University's state appropriations were reduced by \$4,990,687 as part of a statewide budget cut. The University doesn't anticipate there will be additional budget cuts. The Board of Regents have approved a 4.5 percent tier 1 tuition increase for all Utah public colleges for next year.

A crucial element to the University's future continues to be the relationship between our financial health and that of the State of Utah. This requires that we effectively manage tuition to keep it competitive, while providing an outstanding college education for our students. There is a direct relationship between the growth of state support and the University's ability to control tuition increases, as reduced appropriations generally necessitate increased tuition levels. Economic pressures affecting the State may also affect the State's future support of the University.

While it is not possible to predict the ultimate results, management believes that the University's financial condition will remain strong.

Clinton G. Moffitt, CPA
Controller, Utah State University

Statement of Net Assets
June 30, 2003

	<u>2003</u>	<u>2002 Comparative Only</u>
Assets		
Current assets		
Cash (Note C)	\$316,037	\$436,267
Equity in Cash Management Investment Pool (Notes B, C, and D)	132,918,855	126,147,741
Funds on deposit with State Treasurer for account of Division of Facilities Construction and Management (DFCM)	293,641	1,512,250
Deposits with trustees (Notes C and D)	10,388,452	
Due from State Treasurer	1,357,050	560,982
Accounts receivable - net of allowances \$338,202 (Note A)	46,668,176	43,447,773
Credits receivable (Note A)	1,390,737	947,295
Notes receivable net of allowances \$156,060 (Note A)	12,064,646	11,887,179
Inventories	3,024,699	3,504,030
Prepaid expenses	<u>5,722,735</u>	<u>818,271</u>
Total current assets	<u>214,145,028</u>	<u>189,261,788</u>
Non-current assets		
Restricted		
Equity in Cash Management Investment Pool (Notes B, C, and D)	2,989,498	2,829,825
Accounts receivable (Note A)	1,733,317	203,432
Investments (Notes C and D)	25,835,106	26,726,050
Deposits with trustees (Notes C and D)	5,366,912	5,352,923
Real estate held for resale	16,296	16,296
Accounts receivable (Note A)	8,049,404	6,154,001
Deposits with trustees (Notes C and D)	302,468	319,590
Investments (Notes C and D)	8,568,167	8,938,920
Real estate held for resale	86,308	118,524
Property, plant, and equipment, net (Note E)	<u>330,335,250</u>	<u>307,044,665</u>
Total non-current assets	<u>383,282,726</u>	<u>357,704,226</u>
Total assets	<u>597,427,754</u>	<u>546,966,014</u>
Liabilities		
Current liabilities		
Accounts payable (Note G)	33,114,557	33,923,201
Bonds, notes, and contracts payable (Notes H and I)	4,878,022	8,325,714
Liability for compensated absences (Note H)	2,540,686	2,620,688
Liability for early retirement (Note H)	2,051,796	2,037,195
Deferred revenues and deposits (Note H)	27,091,088	21,360,462
Funds held for others	<u>8,852,192</u>	<u>8,109,424</u>
Total current liabilities	<u>78,528,341</u>	<u>76,376,684</u>
Non-current liabilities		
Bonds, notes, and contracts payable (Notes H and I)	55,537,707	26,496,916
Liability for compensated absences (Note H)	8,338,692	7,997,658
Liability for early retirement (Note H)	2,808,917	2,795,435
Deferred revenue and deposits (Note H)	<u>571,639</u>	<u>853,686</u>
Total non-current liabilities	<u>67,256,955</u>	<u>38,143,695</u>
Total liabilities	<u>145,785,296</u>	<u>114,520,379</u>

Statement of Net Assets (continued)
June 30, 2003

	<u>2003</u>	<u>2002 Comparative Only</u>
Net assets		
Invested in capital assets, net of debt	\$280,754,234	\$272,181,448
Restricted for		
Non-expendable		
Primarily scholarships and fellowships	35,441,128	34,628,526
Loans	12,913,969	13,035,607
Expendable		
Research, instruction and public service	56,609,004	54,480,607
Capital projects	14,014,995	10,534,242
Unrestricted	<u>51,909,128</u>	<u>47,585,205</u>
Total net assets	<u>\$451,642,458</u>	<u>\$432,445,635</u>

See notes to financial statements

**Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2003**

	<u>2003</u>	<u>2002 Comparative Only</u>
Operating revenues		
Tuition and fees (net of scholarship allowances of \$23,680,097)	\$47,356,409	\$46,803,490
Federal appropriations	4,139,761	4,072,535
Federal grants and contracts	129,819,935	109,923,048
State grants and contracts	9,006,609	8,272,978
Local grants and contracts	3,048,758	2,516,185
Private grants and contracts	9,452,612	10,676,346
Sales and services of educational departments	7,427,022	7,717,793
Conferences and institutes (non-credit)	5,639,053	4,820,453
Service departments	2,469,113	2,643,557
Auxiliary enterprises	32,625,680	32,245,390
Other	7,541,500	8,520,421
	<u>258,526,452</u>	<u>238,212,196</u>
Operating expenses		
Salaries and wages	173,141,870	169,916,180
Employee benefits	59,603,348	54,241,916
Other operating expenses	120,232,117	117,314,556
Scholarships and fellowships	14,155,740	13,034,335
Depreciation	20,613,153	18,752,539
	<u>387,746,228</u>	<u>373,259,526</u>
Total operating expenses	<u>387,746,228</u>	<u>373,259,526</u>
Operating loss	<u>(129,219,776)</u>	<u>(135,047,330)</u>
Non-operating revenues (expenses)		
State appropriations	124,048,756	129,039,443
State grants	1,820,001	2,278,188
Private gifts	8,304,180	6,546,064
Investment income	6,114,650	2,390,478
Other	(72,666)	12,409
	<u>140,214,921</u>	<u>140,266,582</u>
Net non-operating revenues	<u>140,214,921</u>	<u>140,266,582</u>
Income before other revenues (expenses)	<u>10,995,145</u>	<u>5,219,252</u>
Other revenues (expenses)		
State appropriations for capital purposes	3,564,368	39,207,436
State grants and contracts for capital purposes	632,735	1,981,492
State land grant revenues	141,648	308,002
Private grants and gifts for capital purposes	7,933,542	516,723
Interest on capital asset related debt	(2,386,428)	(1,608,807)
Additions to permanent endowments	985,657	1,004,665
Other additions (deductions) - net	(2,669,844)	(2,075,175)
	<u>8,201,678</u>	<u>39,334,336</u>
Total other revenues	<u>8,201,678</u>	<u>39,334,336</u>
Increase in net assets	19,196,823	44,553,588
Net assets - beginning of year	<u>432,445,635</u>	<u>387,892,047</u>
Net assets - end of year	<u>\$451,642,458</u>	<u>\$432,445,635</u>

See notes to financial statements

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003

	2003	2002 Comparative Only
Cash flows from operating activities		
Tuition and fees	\$54,032,983	\$44,089,775
Federal appropriations	3,563,705	3,962,724
Contracts and grants	150,879,105	123,401,097
Sales and services of educational departments	7,427,022	7,717,793
Conferences and institutes (non-credit)	5,639,011	4,832,033
Service departments	2,465,301	2,646,346
Auxiliary enterprises	31,705,108	32,149,310
Other operating receipts	7,404,311	8,029,688
Payments to employees for salaries and benefits	(226,545,722)	(221,548,910)
Payments to suppliers	(128,381,248)	(112,464,871)
Payments for scholarships and fellowships	(16,251,503)	(13,034,335)
Loans issued to students	(3,781,753)	(2,145,740)
Loan payments received from students	2,888,556	2,366,938
	<u>(108,955,124)</u>	<u>(119,998,152)</u>
Net cash used by operating activities		
Cash flows from non-capital financing activities		
State appropriations	124,124,855	128,838,127
State grants	1,820,001	2,278,188
Private gifts	7,974,157	6,765,459
Other additions	670,734	1,054,938
	<u>134,589,747</u>	<u>138,936,712</u>
Net cash provided by non-capital financing activities		
Cash flows from capital and related financing activities		
State appropriations for capital purposes		
State grants and contracts for capital purposes	2,768,300	38,646,454
State land grant revenues	632,735	1,981,492
Private grants and gifts for capital purposes	141,648	308,002
Proceeds from capital debt	3,309,498	1,396,379
Other additions and deductions - net	37,933,062	5,218,652
Cash paid for capital assets	1,059,601	694,906
Repayment of capital debt and leases	(46,743,178)	(66,814,395)
Interest paid on capital asset related debt	(12,339,963)	(2,646,758)
	<u>(1,857,346)</u>	<u>(1,631,859)</u>
Net cash used by capital and related financing activities		
	<u>(15,095,643)</u>	<u>(22,847,127)</u>
Cash flows from investing activities		
Purchases of investments	(29,999,057)	(15,644,602)
Proceeds from sale of investments	18,756,341	12,290,692
Interest and dividends received from investments	6,295,684	7,545,139
	<u>(4,947,032)</u>	<u>4,191,229</u>
Net cash provided/(used) by investing activities		
Net increase in cash and cash equivalents		
	5,591,948	282,662
Cash and cash equivalents, beginning of year	<u>130,926,083</u>	<u>130,643,421</u>
Cash and cash equivalents, end of year	<u>\$136,518,031</u>	<u>\$130,926,083</u>

Statement of Cash Flows (continued)
For the Fiscal Year Ended June 30, 2003

	<u>2003</u>	<u>2002 Comparative Only</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	(\$129,219,776)	(\$135,047,330)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	20,613,153	18,752,539
Changes in assets and liabilities		
Accounts receivable	(413,782)	(7,997,989)
Inventories	479,331	442,766
Prepaid expenses	(4,904,464)	405,329
Accounts payable and accrued expenses	(610,126)	5,286,658
Deferred revenues and deposits	5,078,412	(3,260,556)
Compensated absences and early retirement	289,115	1,125,077
Net student loan activity	(266,987)	295,354
Net cash used by operating activities	<u>(\$108,955,124)</u>	<u>(\$119,998,152)</u>
Non-cash investing, capital and financing activities		
Fixed assets acquired by incurring capital lease obligations	<u>\$10,714,439</u>	<u>\$750,600</u>
Change in accounts receivable related to private gifts	<u>(\$4,742,549)</u>	<u>\$1,629,921</u>
Change in fair value of investments recognized as a component of investment income	<u>\$194,679</u>	<u>\$5,151,807</u>
Amortization of original issue discount on bonds	<u>\$19,907</u>	<u>\$9,811</u>
Gift of capital assets and gifts in kind reducing proceeds of private gifts and grants	<u>(\$1,396,745)</u>	<u>(\$1,535,535)</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2003

A. Summary of Significant Accounting Policies

The significant accounting policies followed by Utah State University (the University) are described below.

Basis of Presentation

The University is a component unit of the State of Utah. The financial statements include the accounts of Utah State University Agricultural Experiment Station, Utah State University Water Research Laboratory, Utah State University Engineering Experiment Station, Utah State University Ecology Center, Utah State University Cooperative Extension Service, Utah State University Uintah Basin Education Center and Utah State University Southeastern Utah Center for Continuing Education, which are University entities separately funded by state appropriations.

The Utah State University Research Foundation, a component unit of the University, has also been consolidated in these financial statements. The Utah State University Research Foundation is governed by a Board of Trustees appointed by the President of Utah State University, under the direction of the University Board of Trustees. The Utah State University Research Foundation is a dependent foundation of Utah State University and is reported as a part of the University because its primary purpose is to support the mission of Utah State University in regards to research and public service. The Utah State University Research Foundation is financially accountable to the University.

The Utah State University Research Foundation annually publishes an audited financial statement. A copy of these audited financial statements can be obtained from the Utah State University Research Foundation at 1695 North Research Parkway, North Logan, Utah 84341.

In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – For Public Colleges and Universities*, which establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*. Other GASB Statements were required to be implemented in conjunction with GASB Statements No. 34 and No. 35. Therefore, the University has also implemented Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues, Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*. The University adopted the accounting standards related to these statements effective July 1, 2001.

Basis of Accounting

For financial reporting purposes, the University is considered a special purpose government engaged only in business-type activities. Accordingly, the University’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents

The University considers all cash, investments in its Cash Management Investment Pool and funds on deposit with the State Treasurer for account of Division of Facilities Construction and Management (DFCM) to be cash and 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 gain/(loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

Accounts, Credits and Student Loans Receivable

Accounts receivable consist primarily of amounts due from the Federal government, state and local governments or private sources, in connection with reimbursement of allowable expenses, made pursuant to the University’s contracts and grants. Accounts receivable also include tuition and fee charges to students and Auxiliary Enterprise Services provided to students. Accounts receivable are recorded net of estimated uncollectible amounts.

A. Summary of Significant Accounting Policies (continued)

Accounts, Credits and Student Loans Receivable (continued)

Accounts receivable consist of the following at June 30, 2003:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Contracts and grants	\$36,096,710		\$36,096,710
Federal appropriations	766,569		766,569
Pledges receivable (Note L)	5,480,154	\$7,826,774	13,306,928
Auxiliary and service enterprises	1,549,063		1,549,063
Other activities	2,298,542	1,955,947	4,254,489
State appropriations	815,340		815,340
	<u>47,006,378</u>	<u>9,782,721</u>	<u>56,789,099</u>
Total accounts receivable			56,789,099
Less allowance for doubtful accounts	<u>(338,202)</u>		<u>(338,202)</u>
Net accounts receivable	<u>\$46,668,176</u>	<u>\$9,782,721</u>	<u>\$56,450,897</u>

Credits receivable reflect amounts due from vendors doing business primarily with the University's Bookstore.

Student loans receivable are comprised primarily of loans issued through the Federal Perkins Loan Program (FPLP) and short-term loans issued from funds set aside by the University for that purpose.

The Federal government currently provides 75% of the FPLP funding with the University providing the balance. FPLP loans provide 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. FPLP loans are payable after completion of academic degrees or termination as a student with a term of 10 years and an interest rate of 5%. In the event the University should withdraw from the FPLP or the government were to cancel the program, the amount the University would be liable to the Federal government for as of June 30, 2003, is \$10,727,404.

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.

Other University short-term loans have a term of two to four months and carry an interest rate of 7% to 12%. The 12% rate applies if the loan becomes delinquent. Student loans receivable are as follows:

	<u>Total Receivable</u>	<u>Allowance for Uncollectible</u>	<u>Net Receivable</u>
Federal Perkins Loan Program	\$11,573,535	\$146,880	\$11,426,655
Other short term loans	647,171	9,180	637,991
Total	<u>\$12,220,706</u>	<u>\$156,060</u>	<u>\$12,064,646</u>

Inventories

The value of the University Bookstore inventory is recorded at average cost determined using the retail inventory method while all other inventory values are essentially lower of cost (first-in, first-out) or market. Obsolete or unusable items are reduced to net realizable values.

Non-current Assets

Assets that are externally restricted to make debt service payments, maintain sinking or reserve funds or that represent assets of the University's endowments are classified as non-current restricted assets.

Other non-current assets include those receivables that will not be realized within the next year, deposits with trustees and investments that are of a long-term nature, real estate held for resale and the University's property, plant and equipment net of depreciation.

Property, Plant and Equipment

All buildings are carried on an estimated historical cost basis, at cost at date of acquisition or at fair value at date of donation in the case of gifts. All other physical plant and equipment are stated at cost when purchased or constructed, or fair value at date of donation in the case of gifts.

A. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

The University capitalizes all equipment with a unit cost of \$5,000 or more and an estimated useful life greater than one year. Buildings costing \$50,000 or more are capitalized, as are improvements to buildings costing \$50,000 or more that extend the useful life of the building. Improvements other than buildings costing \$50,000 or more are also capitalized. All library books inventoried in the University's recognized libraries are capitalized regardless of cost. Interest is capitalized when incurred in connection with the financing of construction projects. For the year ended June 30, 2003, the University capitalized \$1,016,743 of interest in connection with construction projects.

The University computes depreciation using the straight-line composite method over the estimated useful life of the assets. The estimated useful lives are as follows:

Buildings	10 – 40 years
Improvements other than buildings	5 – 20 years
Equipment	3 – 15 years
Library	20 years

The University provides repair and replacement reserves for certain properties as required by the related bond indentures. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Deferred Revenues

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

Compensated Absences

Sick leave is not accrued but is reported in the period of actual expenditure. Sick leave does not vest to the employee but is allowed on an earned time basis. At the end of each calendar year employees who have earned 48 days of sick leave may convert up to four days of sick leave to annual leave subject to other restrictions of the University.

Annual leave, including converted sick leave, is accrued and reported as earned. Employees are allowed to carry a maximum of 30 days annual leave. The 30 days is variable depending on the number of sick leave days the employee is allowed to convert at calendar year end.

Gifts

The University received \$199,570 of gifts-in-kind, which were recorded as revenue and expense during the fiscal year ended June 30, 2003.

Non-current Liabilities

Non-current liabilities include principal amounts of revenue bonds payable, notes payable and contracts payable that are due beyond the next fiscal year; estimated amounts for accrued compensated absences; early retirement and long-term deposits to assist with the cash flow requirements for the University's contracts and grants.

Net Assets

The University's 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 outstanding debt obligations related to those capital assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – non-expendable: Non-expendable restricted net assets consist of endowment and similar type funds in 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. Also included in this category are funds received from donors with the restriction that the funds will be used to provide short and long term loans to students with all collections, both principal and interest, also being restricted for this purpose.

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

A. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

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

Income Taxes

The University is excluded from income taxes under Section 115 (1) of the Internal Revenue Code. The University is also considered a Section 501 (c) (3) corporation.

Classification of Revenues

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions such as, (1) student tuition and fees, net of scholarship allowances, (2) sales and services of Auxiliary Enterprises and other departments, (3) most Federal, state and local contracts and grants and Federal appropriations and (4) interest on institutional student loans.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Non-operating revenues would include gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34. Examples of non-operating revenues would include state appropriations and investment income.

Scholarship Allowances

Student tuition and fee revenues are reported net of scholarship allowances in the Statement of Revenue, Expenses and Changes in Net Assets. Scholarship 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 non-governmental programs, are recorded as either operating or non-operating 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 allowance to eliminate overstating total revenues to the University and properly record the revenues at the original source.

Segment Reporting

The University, through the Utah State Board of Regents, issues revenue bonds to finance certain activities. The University has deemed it not necessary to report segments on these bond issues, based upon the criteria provided in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

New Accounting Standards

GASB has issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Statement No. 39 amends GASB Statement No. 14, *The Financial Reporting Entity*, to require reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The University has not completed the process of evaluating the impact that will result from adopting this Statement. The University is therefore unable to disclose the impact this Statement will have on its net assets, revenues, expenses and changes in net assets. The requirements of this Statement are effective for the University's fiscal year ending June 30, 2004.

GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures*. Statement No. 40 amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, to update the custodial credit risk disclosure requirements of Statement No. 3, and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The statement is effective for the University's fiscal year ending June 30, 2005.

Prior Year's Presentation

Summary totals and other specific dollar amounts for the prior fiscal year (2002) are presented for comparison purposes only.

B. Cash Management Investment Pool

The University pools all cash not separately deposited for trusts or other specific purposes. Cash in excess of daily operating requirements is invested in short-term investments. These investments are carried at fair value. The investments and other assets of the pool at June 30, 2003 and 2002 (for comparative purposes only), were as follows:

	June 30, 2003 Fair Value	June 30, 2002 Fair Value
Investments - short-term marketable securities		
Time certificates of deposit	\$79,000,000	\$55,000,000
Cash interest bearing	3,894,249	17,701,790
Repurchase agreements - U.S. Government obligations	7,831,557	6,316,915
U.S. Government securities	41,194,480	52,203,590
Utah Public Treasurers' Investment Fund	6,100,000	100,000
	<u>138,020,286</u>	<u>131,322,295</u>
Other assets		
Accrued interest and other receivables	3,617,460	2,503,606
Cash	(5,729,393)	(4,848,335)
	<u>(2,111,933)</u>	<u>(2,344,729)</u>
	<u>\$135,908,353</u>	<u>\$128,977,566</u>

The performance of the Cash Management Investment Pool was as follows:

	June 30, 2003 Fair Value	June 30, 2002 Fair Value
Interest earnings and net change in fair value	<u>\$5,248,321</u>	<u>\$6,664,040</u>
Average daily balance invested	<u>\$141,415,449</u>	<u>\$128,874,835</u>
Return on investments	<u>3.71%</u>	<u>5.17%</u>

C. Cash on Hand and Deposits with Financial Institutions

The following table identifies the University's cash on hand and deposits with financial institutions at June 30, 2003:

Cash	\$316,037
Cash Management Investment Pool	135,908,353
Investments	34,403,273
Deposits with trustees	<u>16,057,832</u>
	186,685,495
Less: Cash on hand	101,039
Investments included in Cash Management Investment Pool, investments and deposits with trustees	108,825,397
Funds held for others	<u>78,323</u>
	<u>\$77,680,736</u>

At June 30, 2003, the University had \$101,039 of cash on hand in various change funds. The carrying amount (book balance) of the University's deposits with financial institutions at June 30, 2003, was \$77,680,736 and the bank balance was \$84,512,735. The net difference between the bank balance and the carrying amount, \$6,831,999, is primarily a reflection of the investment of the daily float. Of the bank balance, \$446,241 was covered by federal depository insurance, and \$84,066,494 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 deposit of public money.

Deposits with financial institutions are categorized to give an indication of the level of risk assumed by the University at year-end. Category 1 includes deposits with financial institutions that are insured or collateralized with securities held by the University or its agent in the University's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent in the University's name. Category 3 includes uninsured deposits, which are uncollateralized.

C. Cash on Hand and Deposits with Financial Institutions (continued)

Balances of deposits by the defined categories at June 30, 2003, consisted of the following:

	Carrying Amount <u>(Book Balance)</u>
Category 1	\$446,241
Category 2	0
Category 3	<u>77,234,495</u>
Total	<u><u>\$77,680,736</u></u>

D. Investments

The University is governed in its investment and depository transactions by the Utah Money Management Act and the rules of the State Money Management Council. The statutes stipulate that investment transactions may only be conducted through qualified depositories or primary reporting dealers. The statutes authorize the University to invest in negotiable certificates of deposit issued by approved banks and savings and loans; repurchase agreements; commercial paper rated P-1 by Moody's Investment Services, Inc., or A-1 by Standard and Poors Corporation; bankers' acceptances; obligations of the U.S. Treasury and certain agencies; bonds, notes and other indebtedness of political subdivisions of the State; shares or certificates in any open-end management investment company registered with the Securities and Exchange Commission subject to certain portfolio restrictions; guaranteed loans to college students; certain secured debt of public housing authorities; and the Utah Public Treasurers' Investment Fund. A portion of the University's investments at June 30, 2003, were in the Utah Public Treasurers' Investment Fund. The investment activity of this fund is governed by the Utah Money Management Act. Income from the fund is allocated to the University based on its prorata share of the total earnings in the fund. There are no changes in the principal balance in this fund based on market fluctuations of the investments.

The 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, as well as professionally managed commingled equity investment funds or mutual funds which satisfy certain criteria; common and convertible preferred stock and convertible bonds issued by corporations listed on a major securities exchange or in the NASDAQ National Market System; and bonds, notes, mortgage securities and zero coupon securities issued by corporations rated "A" or higher by Moody's Investment Services, Inc., or Standard and Poors Corporation.

The following tables show total investments held by the University at June 30, 2003, and provide information about the credit and market risks associated with the investments. 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. The University's investments are reported at fair value.

Cash Management Investment Pool	\$135,908,353
Investments	34,403,273
Deposits with trustees	<u>16,057,832</u>
Total	186,369,458
Less: Net carrying amount of deposits with financial institutions included in Cash Management Investment Pool, investments and deposits with trustees	<u>77,544,061</u>
Total	<u><u>\$108,825,397</u></u>

	Category			Total
	1	2	3	
Repurchase agreements			\$7,831,557	\$7,831,557
U.S. Government securities	\$41,734,200		904,879	42,639,079
State, county or local government and agencies securities			87,853	87,853
Corporate bonds and notes	9,375		1,117,740	1,127,115
Common and preferred stocks			<u>8,516,624</u>	<u>8,516,624</u>
Total	<u>\$41,743,575</u>	<u>\$0</u>	<u>\$18,458,653</u>	60,202,228

D. Investments (continued)

	<u>Total</u>
Pooled funds:	
Mutual funds	\$25,780,734
Investment in Utah Public Treasurers' Investment Fund	19,224,975
Cash Management Investment Pool receivables	<u>3,617,460</u>
Total	<u>\$108,825,397</u>

Due to the fluctuation of cash flows during the year, the University's investment in overnight repurchase agreements, for which the underlying securities were held by the dealer, varies significantly. The amounts that were in Category 3 fluctuated daily between a low of approximately \$1,300,000 and a high of approximately \$19,700,000 during the fiscal year ended June 30, 2003.

E. Property, Plant and Equipment

The University's investment in property, plant and equipment consist of the following:

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Balance June 30, 2003</u>
Property, plant and equipment not depreciated					
Land	\$9,621,440	\$1,104,446	\$22,159	(\$231,470)	\$10,516,575
Construction projects	<u>22,575,341</u>	<u>21,695,396</u>	<u>(12,158,730)</u>		<u>32,112,007</u>
Total capital assets not depreciated	<u>\$32,196,781</u>	<u>\$22,799,842</u>	<u>(\$12,136,571)</u>	<u>(\$231,470)</u>	<u>\$42,628,582</u>
Other property, plant and equipment					
Buildings	\$316,437,073	\$12,397,546	\$9,078,333	(\$643,570)	\$337,269,382
Improvements	32,825,921	1,415,996	2,999,196		37,241,113
Equipment	87,866,622	7,783,191	59,042	(7,941,525)	87,767,330
Library	<u>47,653,948</u>	<u>3,543,778</u>		<u>(110,587)</u>	<u>51,087,139</u>
Total other capital assets	<u>484,783,564</u>	<u>25,140,511</u>	<u>12,136,571</u>	<u>(8,695,682)</u>	<u>513,364,964</u>
Less accumulated depreciation					
Buildings	(108,591,872)	(10,004,019)		542,036	(118,053,855)
Improvements	(25,442,903)	(2,753,887)			(28,196,790)
Equipment	(52,492,069)	(6,081,102)		4,655,671	(53,917,500)
Library	<u>(23,408,836)</u>	<u>(2,081,315)</u>			<u>(25,490,151)</u>
Total accumulated depreciation	<u>(209,935,680)</u>	<u>(20,920,323)</u>	<u>0</u>	<u>5,197,707</u>	<u>(225,658,296)</u>
Other capital assets net	<u>\$274,847,884</u>	<u>\$4,220,188</u>	<u>\$12,136,571</u>	<u>(\$3,497,975)</u>	<u>\$287,706,668</u>
Capital asset summary					
Capital assets not depreciated	\$32,196,781	\$22,799,842	(\$12,136,571)	(\$231,470)	\$42,628,582
Other capital assets at cost	<u>484,783,564</u>	<u>25,140,511</u>	<u>12,136,571</u>	<u>(8,695,682)</u>	<u>513,364,964</u>
Total cost of capital assets	516,980,345	47,940,353	0	(8,927,152)	555,993,546
Less accumulated depreciation	<u>(209,935,680)</u>	<u>(20,920,323)</u>		<u>5,197,707</u>	<u>(225,658,296)</u>
Capital assets net of depreciation	<u>\$307,044,665</u>	<u>\$27,020,030</u>	<u>\$0</u>	<u>(\$3,729,445)</u>	<u>\$330,335,250</u>

F. Assets Held in Trust by Others

The School and Institutional Trust Lands Administration administer the 1862 Land Grant fund on behalf of the University. Income from the fund, which was \$141,648 and \$308,002 for fiscal years 2003 and 2002, respectively, is pledged in support of University bond issues. Assets of the fund are not recorded on the records of the University. The composition and carrying value of the fund at each respective fiscal year end was reported as follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Cash	\$0	(\$167,765)
Land	110,910	110,910
Investments	<u>654,831</u>	<u>658,601</u>
Total	<u><u>\$765,741</u></u>	<u><u>\$601,746</u></u>

G. Accounts Payable and Accrued Liabilities

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

Salaries and benefits payable	\$15,864,834
Suppliers payable	16,335,366
Interest payable	639,430
Other	<u>274,927</u>
Total accounts payable and accrued liabilities	<u><u>\$33,114,557</u></u>

H. Bonds, Notes, Contracts and Other Non-current Liabilities

Assets pledged for payment of bonds and contracts include the net revenue of auxiliary enterprises, land grant funds, specific student fees and reimbursed facilities and administrative costs. Bonds, notes and contracts outstanding at June 30, 2003 and 2002, were as follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Bonds payable		
Stadium and Spectrum Revenue Bonds		
Series A (1993) 2.90%-5.80%, 1993-2005	<u>\$1,180,000</u>	<u>\$1,530,000</u>
Student Housing System Revenue Bonds		
Series A (1994) 4.35%-7.05%, 1994-2002		505,000
Series B (1994) 3.25%-6.15%, 1994-2004	1,890,000	2,655,000
Series A (1999) 3.80%-4.75%, 2002-2014	<u>14,935,000</u>	<u>15,010,000</u>
Total Student Housing System Revenue Bonds	<u>16,825,000</u>	<u>18,170,000</u>
Research and Refunding Revenue Bonds		
Series A (1995) 3.60%-5.75%, 1995-2010	<u>1,700,000</u>	<u>5,725,000</u>
Roosevelt Campus Construction Bonds		
Series (1999) 2.50%, 2001-2020	<u>460,000</u>	<u>480,000</u>
Research and Refunding Revenue Bonds		
Series A (2002) 2.50%-5.25%, 2002-2018	<u>23,695,000</u>	<u>0</u>
Research Revenue Bonds		
Series A (2003) 1.90%-4.40%, 2003-2016	<u>705,000</u>	<u>0</u>
Total bonds payable	<u><u>44,565,000</u></u>	<u><u>25,905,000</u></u>

H. Bonds, Notes, Contracts and Other Non-current Liabilities (continued)

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Notes payable		
Zions Mortgage, 3%, 1978-2011	\$707,500	\$817,500
Tooele Building, 0%, 1996-2016	982,000	
DFCM, 0%, 1998-2003		41,220
SAFECO Credit Company, 5.0375%, 1998-2003	48,076	187,564
SAFECO Credit Company, 5.3690%, 1999-2009	390,941	443,872
UOES, 0%, 2000-2006	125,002	166,668
Cronquist property, 6%, 2001-2002		50,000
Logan Park, LLC, 7.75%, 1999-2011	758,117	826,870
Zions Bank, variable - prime +0.25%, Spectrum Scoreboard, 2002-2003		740,416
Zions Bank, variable - 75% of prime, Housing Fire/Life Safety, 2002-2003	1,638,093	410,171
Zions Bank, variable - prime, SDL facilities		4,068,064
Zions Bank, 4.7%, 2003-2007	1,457,380	
Caterpillar Financial Services, 3.95%, 2003-2004	7,654,288	
	<u>13,761,397</u>	<u>7,752,345</u>
Equipment contracts payable, 2002-2011	<u>1,814,039</u>	<u>1,205,872</u>
Total bonds, notes and equipment contracts payable	<u>60,140,436</u>	<u>34,863,217</u>
Unamortized original issue discount (OID) reoffering premium (RP) and refunding loss on bonds		
1994B bonds - OID	(10,703)	(17,838)
1995A bonds - OID	(9,977)	(22,749)
1995A bonds - refunding loss	(289,772)	
2002A bonds - RP	585,745	
	<u>275,293</u>	<u>(40,587)</u>
Total bonds, notes and equipment contracts payable net of unamortized OID, RP and refunding loss on bonds	<u>\$60,415,729</u>	<u>\$34,822,630</u>

Below is a summary of the changes in bonds, notes and equipment contracts payable for the fiscal year ended June 30, 2003.

	<u>Bonds</u>	<u>Notes</u>	<u>Equipment Contracts</u>	<u>Total Payable</u>	<u>Unamortized OID, RP and Refunding Loss</u>	<u>Total Net of OID, RP and Refunding Loss</u>
Balance at June 30, 2002	\$25,905,000	\$7,752,345	\$1,205,872	\$34,863,217	(\$40,587)	\$34,822,630
Additions	24,440,000	12,097,154	1,085,965	37,623,119	309,943	37,933,062
Deletions	(5,780,000)	(6,088,102)	(477,798)	(12,345,900)	5,937	(12,339,963)
Balance at June 30, 2003	<u>\$44,565,000</u>	<u>\$13,761,397</u>	<u>\$1,814,039</u>	<u>\$60,140,436</u>	<u>\$275,293</u>	<u>\$60,415,729</u>

The University has complied with the restrictive covenants of its bond agreements. Amounts due on bonds and contracts payable in future years are as follows:

	<u>Bonds</u>	<u>Notes and Contracts</u>	<u>Principal Total</u>	<u>Interest</u>	<u>Total Amount Required</u>
FY 2004	\$2,080,000	\$2,798,022	\$4,878,022	\$2,254,282	\$7,132,304
FY 2005	2,926,000	1,265,152	4,191,152	2,352,809	6,543,961
FY 2006	3,069,000	1,122,918	4,191,918	2,192,856	6,384,774
FY 2007	2,750,000	830,056	3,580,056	2,024,155	5,604,211
FY 2008	2,858,000	802,625	3,660,625	1,881,467	5,542,092
FY's 2009-13	16,298,000	3,546,729	19,844,729	6,883,073	26,727,802
FY's 2014-18	14,493,000	2,207,461	16,700,461	2,455,813	19,156,274
FY's 2019-23	91,000	3,002,473	3,093,473	383,392	3,476,865
Total	<u>\$44,565,000</u>	<u>\$15,575,436</u>	<u>\$60,140,436</u>	<u>\$20,427,847</u>	<u>\$80,568,283</u>

H. Bonds, Notes, Contracts and Other Non-current Liabilities (continued)

On July 3, 2002, the University issued \$23,735,000 Refunding and Research Revenue Bonds, Series 2002A with an average interest rate of 4.68%. The net proceeds (\$24,060,925), after cost of issuance and including accrued interest to delivery (\$52,227) and reoffering premium (\$629,571) were deposited, \$19,018,020 to the construction fund, \$1,242,274 to the capitalized interest fund, \$52,227 to the debt service fund and \$3,748,404 to the refunding escrow fund. The refunding portion, \$3,748,404, carries an average interest rate of 3.92% and was used to advance refund \$3,515,000 of debt with an average interest rate of 5.59%.

Construction funds are being used to acquire, construct, furnish and equip three research facilities including related office space. The capitalized interest fund has and will be utilized to provide debt service payments through December 1, 2003. The refunding escrow fund was used to purchase U.S. Government securities which were deposited in an irrevocable trust to provide for all future debt service payments on \$3,515,000 of the Research and Refunding Revenue Bonds, Series 1995A, which mature on December 1 of the years 2006 through 2010. This portion of the 1995A bonds is considered to be defeased and the liability for those bonds has been removed from the University's long-term debt.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$328,408. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized as a component of interest expense using the straight-line method over the remaining life of the old debt. The difference will be fully amortized by the end of fiscal year 2011. The advance refunding of the \$3,515,000 Research and Refunding Revenue Bonds, Series 1995A provided a \$142,915 reduction in the debt service payments and an economic gain (difference between the present value of the old and new debt service payments) of \$122,700.

The outstanding balance of bonds defeased and refunded in prior years totaled \$18,300,000 at June 30, 2003. The bond liabilities of these defeased and refunded bonds are not included on the balance sheet.

Liability for compensated absences and early retirement consisted of the following at June 30, 2003:

	Current	Non-Current	Total
Liability for compensated absences	\$2,540,686	\$8,338,692	\$10,879,378
Liability for early retirement	2,051,796	2,808,917	4,860,713
Total	<u>\$4,592,482</u>	<u>\$11,147,609</u>	<u>\$15,740,091</u>

Deferred revenues and deposits consisted of the following at June 30, 2003:

	Current	Non-Current
Tuition and fees	\$7,415,143	
Contract and grant revenue	17,910,314	\$571,639
Auxiliary and service enterprises	1,275,088	
Non-operating	126,743	
Total	<u>\$26,727,288</u>	<u>\$571,639</u>

Non-current liability activity for the year ended June 30, 2003 was as follows:

	Beginning Balance July 1, 2002	Additions	Reductions	Ending Balance June 30, 2003	Amounts Due Within One Year
Bonds, notes and contracts payable					
Bonds payable	\$25,864,413	\$24,749,943	(\$5,774,063)	\$44,840,293	\$2,080,000
Notes payable	7,752,345	12,097,154	(6,088,102)	13,761,397	2,139,652
Contracts payable	1,205,872	1,085,965	(477,798)	1,814,039	658,370
Total bonds, notes and contracts payable	<u>34,822,630</u>	<u>37,933,062</u>	<u>(12,339,963)</u>	<u>60,415,729</u>	<u>4,878,022</u>
Other liabilities					
Liability for compensated absences	10,618,346	2,881,720	(2,620,688)	10,879,378	2,540,686
Liability for early retirement	4,832,630	2,255,726	(2,227,643)	4,860,713	2,051,796
Deferred revenue and deposits	22,214,148	26,445,241	(21,360,462)	27,298,927	26,727,288
Total other liabilities	<u>37,665,124</u>	<u>31,582,687</u>	<u>(26,208,793)</u>	<u>43,039,018</u>	<u>31,319,770</u>
Total non-current liabilities	<u>\$72,487,754</u>	<u>\$69,515,749</u>	<u>(\$38,548,756)</u>	<u>\$103,454,747</u>	<u>\$36,197,792</u>

I. Bonds - Current Year Activity of Bond Fund Accounts

The tables below outline the financial activity and fund balances in the bond funds for each of the University's outstanding bond issues.

Stadium and Spectrum revenue bonds - Series A (1993) - Original Amount \$3,915,000

	Bond Revenue Fund	Debt Service Reserve Fund
Additions:		
Student building fees	\$649,712	
Investment earnings		\$287
Total additions	<u>649,712</u>	<u>287</u>
Deductions:		
Interest on indebtedness		75,326
Debt principal payments		350,000
Repair	188,698	
Other		2,501
Total deductions	<u>188,698</u>	<u>427,827</u>
Interfund transfers in/(out)	<u>(461,014)</u>	<u>461,014</u>
Net increase	0	33,474
Net assets July 1, 2002	<u>0</u>	<u>388,608</u>
Net assets June 30, 2003	<u>\$0</u>	<u>\$422,082</u>

Student Fee revenue bonds Roosevelt Campus Series (1999) - Original Amount \$500,000

	Bond Revenue Fund	Debt Service Reserve Fund	Cost of Issuance Fund
Additions:			
Tuition and fees	\$5,417		
Total additions	<u>5,417</u>	<u>\$0</u>	<u>\$0</u>
Deductions:			
Interest on indebtedness		12,000	1,168
Debt principal payments		20,000	
Total deductions	<u>0</u>	<u>32,000</u>	<u>1,168</u>
Interfund transfers in/(out)	<u>(5,417)</u>	<u>5,417</u>	<u>0</u>
Net decrease in net assets	0	(26,583)	(1,168)
Net assets July 1, 2002	<u>0</u>	<u>48,251</u>	<u>20,448</u>
Net assets June 30, 2003	<u>\$0</u>	<u>\$21,668</u>	<u>\$19,280</u>

Research and Refunding revenue bonds - Series A (1995 and 2002) - Original Amount 1995A \$8,555,000; 2002 \$23,735,000

	Bond Revenue Fund 1995A	Capitalized Interest Fund 2002A	Debt Service Reserve Fund 1995A	Debt Service Reserve Fund 2002A	Cost of Issuance Fund 1995A	Cost of Issuance Fund 2002A
Additions:						
Bond proceeds		\$1,242,274				\$355,871
Investment earnings		12,100	\$513	\$52,605		
Facilities and administrative revenues	\$734,722					
Transfers from other University Funds		170,968	50,000			
Total additions	<u>734,722</u>	<u>1,425,342</u>	<u>50,513</u>	<u>52,605</u>	<u>\$0</u>	<u>355,871</u>
Deductions:						
Interest on indebtedness			79,502	1,090,261	114,482	25,591
Debt principal payments			510,000	40,000		
Other				1,950		
Total deductions	<u>0</u>	<u>0</u>	<u>589,502</u>	<u>1,132,211</u>	<u>114,482</u>	<u>25,591</u>
Interfund transfers in/(out)	<u>(734,722)</u>	<u>(990,711)</u>	<u>563,754</u>	<u>990,711</u>	<u>0</u>	<u>0</u>
Net increase/(decrease)	0	(990,711)	24,765	(88,895)	(114,482)	330,280
Net assets July 1, 2002	<u>0</u>	<u>0</u>	<u>(13,156)</u>	<u>0</u>	<u>163,177</u>	<u>0</u>
Net assets June 30, 2003	<u>\$0</u>	<u>\$434,631</u>	<u>\$11,609</u>	<u>(\$88,895)</u>	<u>\$48,695</u>	<u>\$330,280</u>

I. Bonds - Current Year Activity of Bond Fund Accounts (continued)

**Student housing system revenue bonds - Series A (1994 and 1999) and B (1994) -
Original Amount 1994A \$3,525,000; 1994B \$20,515,000; 1999A \$15,010,000**

	Bond Revenue Fund	Repair and Replacement Fund	Debt Service Reserve Fund 1994A Bonds	Debt Service Reserve Fund 1994B Bonds	Debt Service Reserve Fund 1999A Bonds	Cost of Issuance Fund
Additions:						
Net revenue from bonded facilities	\$2,566,029					
Student building fees	914,373					
Land grant revenues	141,648					
Investment earnings		\$10,084		\$1,179	\$629	
Total additions	3,622,050	10,084	\$0	1,179	629	\$0
Deductions:						
Interest on indebtedness			14,883	118,817	678,646	49,927
Debt principal payments			505,000	765,000	75,000	
Other				3,069	2,700	
Transfer to other University funds	2,035,421					
Total deductions	2,035,421	0	519,883	886,886	756,346	49,927
Interfund transfers in/(out)	(1,836,021)	(10,781)	1,027	1,021,375	824,400	0
Net increase/(decrease)	(249,392)	(697)	(518,856)	135,668	68,683	(49,927)
Net assets July 1, 2002	467,804	502,875	518,856	826,008	362,167	278,254
Net assets June 30, 2003	\$218,412	\$502,178	\$0	\$961,676	\$430,850	\$228,327

The net revenues related to the Student Housing System Revenue Bonds - Series A (1994) and B (1994) and A (1999) were equal to 168.44% of the aggregate debt service in fiscal year 2003.

Research revenue bonds - Series A (2003) - Original Amount \$705,000

	Bond Revenue Fund	Debt Service Reserve Fund	Cost of Issuance Fund
Additions:			
Bond proceeds			\$35,116
Investment earnings		\$372	128
Facilities and administrative revenues	\$2,753		
Transfers from other University Funds	2,752	69,884	
Total additions	5,505	70,256	35,244
Deductions:			
Interest on indebtedness		7,689	283
Debt principal payments			
Other			
Total deductions	0	7,689	283
Interfund transfers in/(out)	(5,505)	5,505	0
Net increase in net assets	0	68,072	34,961
Net assets July 1, 2002	0	0	0
Net assets June 30, 2003	\$0	\$68,072	\$34,961

J. Pension Plans and Retirement Benefits

As required by state law, eligible non-exempt employees of the University (as defined by the U.S. Fair Labor Standards Act) are covered by the Utah Retirement Systems. Eligible exempt employees (as defined by the U.S. Fair Labor Standards Act) are covered by the Teachers Insurance and Annuity Association (TIAA) and/or College Retirement Equities Fund (CREF). The total employee compensation and the total contribution for each pension plan for the year ending June 30, 2003 and the two previous years were as follows:

	Year	Compensation	Contribution		
			Defined Benefit Plans	Defined Contribution Plans 401(K)	Total
Utah Retirement Systems					
State and School System - Contributory	2003	\$1,241,034	\$147,807		\$147,807
	2002	1,333,669	158,840		158,840
	2001	1,333,602	202,574		202,574
State and School System - Noncontributory (includes \$30,766 contributed to a 401(K) plan with Educators Mutual Insurance Association (EMIA))	2003	31,049,215	3,229,118	\$473,210	3,702,328
	2002	32,574,456	3,387,781	490,408	3,878,189
	2001	31,174,319	4,264,355	468,063	4,732,418
Public Safety with Social Security System - Noncontributory	2003	436,794	82,729		82,729
	2002	435,850	85,775		85,775
	2001	377,754	89,226		89,226
TIAA and/or CREF	2003	108,828,084		15,453,588	15,453,588
	2002	103,575,050		14,707,657	14,707,657
	2001	94,546,772		13,425,642	13,425,642
Non-eligible employees	2003	34,488,475			
	2002	34,228,291			
	2001	30,908,255			

Utah Retirement Systems plans include multiple-employer, cost sharing, defined benefit plans and 401(K) defined contribution plans. The defined benefit plans provide defined benefits based on years of service and highest average salaries. The defined contribution plans provide benefits based on total contributions and the accumulated earnings. The plans are administered by the state of Utah. These systems cover substantially all eligible public employees of the state of Utah, educational employees and employees of participating local governmental entities. The pension benefit is vested at the end of four years under all Utah Retirement Systems plans that University employees are participating in. The amount credited as the individual's contribution is vested at the time the contribution is made. The contribution rates are actuarially determined and define the required contribution when applied to the salaries of the eligible employees. The University has contributed an amount equal to the required contribution for fiscal year 2003. For employees in the contributory plan, the University contributes at a rate of 11.91% of gross earnings. Of this, 6% is credited as the individual's contribution and 5.91% is considered the University's matching contribution. For employees in the State and School System - Noncontributory plan, the University contributes 11.9% of gross earnings. Of this, 1.5% is contributed to a 401(K) plan and 10.4% is credited as the University's contribution. For the employees in the Utah Public Safety with Social Security System - Noncontributory plan, the University contributes 18.94% of gross earnings. During the fiscal years ended June 30, 2003, 2002 and 2001, the University's contribution to all Utah retirement plans were \$3,902,098, \$4,097,409 and \$4,999,789, respectively. The University has no further liability once contributions are made.

The Utah Retirement 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 Utah State Retirement Board whose members are appointed by the Governor. The Utah Retirement Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School System - Contributory Retirement plan, State and School System - Noncontributory Retirement plan and Public Safety Retirement System plan. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102, or by calling 1-800-365-8772.

EMIA provides a 401(K) defined contribution plan that can be utilized by employees on the Utah Retirement State and School System - Noncontributory plan. This contribution is in lieu of the 1.5% that would have been contributed to the Utah Retirement Systems 401(K) plan. The contribution made by the University is at 1.5% of gross earnings. Contributions by the University become vested at the time the contribution is made. During the fiscal years ended June 30, 2003, 2002 and 2001, the University's contribution to this 401(K) plan was \$30,766, \$25,395 and \$24,429, respectively. The University has no further liability once contributions are made.

TIAA and/or CREF provide individual retirement fund contracts with each participating employee. Benefits provided to retired employees are based on the value of individual contracts and the estimated life expectancy of the employee at retirement. Contributions by the University to the employee's contract become vested at the time the contribution is made. For the years ended June 30, 2003, 2002 and 2001, the University's contribution to this multiple employer defined contribution plan was 14.2% of the employees' annual salary or \$15,453,588, \$14,707,657 and \$13,425,642, respectively. The University has no further liability once annual contributions are made.

Through October 16, 1997, the University provided an early retirement option. Under this plan, the University may elect to offer early retirement to employees who have attained the age of 59 with a minimum of 16 years of service. This option provides the early retiree with incentive pay and health care to age 65. As of June 30, 2003, there were 5 individuals participating in this program. Effective October 17, 1997, the University revised its early retirement plan. Under the new plan the University may elect to offer early retirement to employees whose accumulated age and years of service at Utah State University is equal to or greater than 75 and who have attained the age of 56. As of June 30, 2003, there were 133 individuals participating in this program. The University records an expenditure and a liability equal to the present value of the projected benefit obligation in the year the individual retires. The program is funded on a pay-as-you-go basis. Payments for the incentive pay in the years ended June 30, 2003, 2002 and 2001 were \$1,415,472, \$1,327,652 and \$1,281,310, respectively. Payments for the health care and life insurance benefits for the years ended June 30, 2003, 2002 and 2001 were \$986,253, \$809,122 and \$702,511, respectively.

K. Deferred Compensation Plan

Employees of the University may participate in several deferred compensation plans adopted under the provisions of Internal Revenue Code (IRC) Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). The deferred compensation plans are available to all employees of the University. Under the plans, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

K. Deferred Compensation Plan (continued)

The deferred compensation plans are administered by an unrelated financial institution. As part of its fiduciary role, the University has an obligation of due care in selecting the third party administrators. In the opinion of the University administrators, the University has acted in a prudent manner and is not liable for losses that may arise from the administration of the plans.

The University is in compliance with the requirements of subsection (g) of IRC Section 457. All assets for IRC Section 457 Plans are externally held in trust for the exclusive benefit of the participants or their beneficiaries rather than as assets of the University.

L. Pledges

At June 30, 2003 the University had received and recorded certain pledges of gifts as follows:

<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
\$5,480,154	\$7,826,774	\$13,306,928

Restrictions on the pledges are: \$295,600 for expendable scholarships, \$5,236,000 for expendable programs, \$7,621,500 for capital improvements, \$107,800 for endowed scholarships, and \$46,028 for program endowments.

M. Risk Management

General Liability Insurance

The University maintains insurance coverage for general, automobile, personal injury, errors and omissions, employee dishonesty, and malpractice liability up to \$10 million per occurrence through policies administered by the Utah State Risk Management Fund. The University also insures its buildings, including those under construction, and contents against all insurable risks of direct physical loss or damage with the Utah State Risk Management Fund. This all-risk insurance coverage provides for repair or replacement of damaged property at a replacement cost basis subject to a deductible of \$1,000 per occurrence. All revenues from 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 with the Utah State Risk Management Fund. All University employees are covered by worker's compensation insurance, including employer's liability coverage by the Worker's due to business interruption caused by fire or other insurable perils with the Utah State Risk Management Fund. All University employees are covered by worker's compensation insurance, including employer's liability coverage by the Worker's Compensation Fund of Utah.

Self-insurance for Employee Health and Dental Care

On July 1, 1995, the University established a self-insurance fund for employee health and dental care. GASB Statement No. 10 requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements. The University's estimated self-insurance claims liability at June 30, 2003 and June 30, 2002 is as follows:

	<u>2003</u>	<u>2002</u>
Estimated claims liability at beginning of year	\$1,947,141	\$2,059,186
Current year claims and changes in estimates	24,244,072	22,458,234
Claim payments, including related legal and administrative expenses	<u>(24,022,267)</u>	<u>(22,570,279)</u>
Estimated claims liability at end of year	<u>\$2,168,946</u>	<u>\$1,947,141</u>

The University has recorded the investment of the health and dental care funds at June 30, 2003, and the estimated liability for self-insurance claims at that date in the Statement of Net Assets. The income on fund investments, the expenses related to the administration of the self-insurance and the estimated provision for the claims liabilities for the year then ended are recorded in the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Net Assets.

Contingencies

The University has been named in several lawsuits where litigation is pending. It is unlikely that any judgments against the University will be established or would otherwise be material in nature. The lawsuits are such that any financial settlement would be covered primarily by insurance held by the University.

N. Natural Classification with Functional Classifications

The University's operating expenses by functional classification for FY 2003 were as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries and Wages</u>	<u>Employee Benefits</u>	<u>Other Operating Expenses</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	
Instruction	\$62,904,210	\$20,785,593	\$15,366,894			\$99,056,697
Research	39,238,705	13,237,721	54,166,491			106,642,917
Public service	17,291,476	6,157,082	12,500,461			35,949,019
Academic support	11,744,431	4,304,219	6,003,028			22,051,678
Student services	5,484,983	1,658,526	2,318,198			9,461,707
Institutional support	14,988,669	6,504,407	2,981,739			24,474,815
Operation and maintenance	9,042,875	3,209,671	11,008,545			23,261,091
Scholarships and fellowships	99,046	19,558	445,285	\$14,155,740		14,719,629
Service departments	3,179,442	1,060,877	(4,125,026)			115,293
Auxiliary enterprises	9,168,033	2,665,694	19,566,502			31,400,229
Depreciation					\$20,613,153	20,613,153
Total expenses	<u>\$173,141,870</u>	<u>\$59,603,348</u>	<u>\$120,232,117</u>	<u>\$14,155,740</u>	<u>\$20,613,153</u>	<u>\$387,746,228</u>



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