

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

**A Regional College within the  
Utah College of Applied Technology,  
A Component Unit of the State of Utah**

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Annual Financial Report  
and  
Government Auditing Standards Report  
For the Year Ended June 30, 2012

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Report No. 12-55

STATE OF UTAH  
**OFFICE OF THE STATE AUDITOR**



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# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2012

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STATE OF UTAH  
**OFFICE OF THE STATE AUDITOR**

**Independent State Auditor's Report**

To the Board of Directors, Audit Committee,  
and  
Dana L. Miller, Campus President  
Southwest Applied Technology College

We have audited the accompanying financial statements of Southwest Applied Technology College (the College) as of and for the year ended June 30, 2012, as listed in the table of contents. The College is a regional college within the Utah College of Applied Technology (UCAT) which is a component unit of the State of Utah. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Southwest Applied Technology College are intended to present the financial position, and the changes in financial position and cash flows of only that portion of UCAT that is attributable to the transactions of the College. They do not purport to, and do not, present fairly the financial position of UCAT, as of June 30, 2012, the changes in its financial position or cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 21, 2013, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Office of the Utah State Auditor*

Office of the Utah State Auditor  
February 21, 2013

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012**

As Management of the Southwest Applied Technology College (College), we offer this narrative overview and analysis of the financial activities of the College for the fiscal year ended June 30, 2012 to the readers of the College's financial statements.

Effective September 1, 2001, the Utah State Legislature created the Utah College of Applied Technology (UCAT) which is composed of eight regional applied technology colleges. The Southwest Applied Technology College is one of these regional applied technology colleges. With this change, the College became an institution with and subject to the authority of the Utah System of Higher Education. Effective July 1, 2009, UCAT, including the College, was moved out from under the jurisdiction of the Utah State Board of Regents and was placed under the governance of the UCAT Board of Trustees. The legislation making this change in governance left UCAT as an institution under the Utah System of Higher Education but changed the direct governance from the Board of Regents to the UCAT Board of Trustees.

### **Overview of the Financial Statements**

This management's discussion and analysis is intended to serve as an introduction to the College's financial statements. The College's financial statements include four components: 1) the Statement of Net Assets, 2) the Statement of Revenues, Expenses, and Changes in Net Assets, 3) the Statement of Cash Flows, and 4) the Notes to the Financial Statements.

**Statement of Net Assets.** The Statement of Net Assets provides information on the College's assets and liabilities at the end of the fiscal year, with the difference between the two reported as net assets. The information provided in the Statement of Net Assets along with disclosures and other information contained in the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and accompanying notes helps users assess, among other things, the College's liquidity and its ability to meet its obligations.

**Statement of Revenues, Expenses, and Changes in Net Assets.** The Statement of Revenues, Expenses, and Changes in Net Assets provides information to users both about the operating performance of the College and the effects of nonoperating transactions and events that change the amount of net assets of the College. The information in this statement, together with information in the Statement of Net Assets, the Statement of Cash Flows, and accompanying notes, should assist users of the College's financial statements in evaluating the College's performance during the fiscal year and how well management has discharged their stewardship responsibilities and other aspects of their duties.

**Statement of Cash Flows.** The Statement of Cash Flows provides information about the cash receipts and cash payments of the College during the fiscal year. When used with related disclosures and information in other financial statements, a statement of cash flows should help financial statement report users assess the College's ability to generate future net cash flows; its ability to meet its obligations as they come due; the reasons for differences between operating income and the associated cash receipts and payments; and the effects on the College's financial

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

position on both its cash and noncash investing, capital and financing transactions during the fiscal year.

**Notes to the Financial Statements.** The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

### **Financial Analysis**

**Assets, Liabilities, and Net Assets.** The following schedule presents a summary of the College's assets, liabilities, and net assets as of June 30, 2012 and 2011:

<u>Net Assets</u>	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2011</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Current Assets	\$ 1,286,014	\$ 1,418,494	\$ (132,480)	-9%
Capital Assets	5,121,828	5,230,200	(108,372)	-2%
<b>Total Assets</b>	<b>6,407,842</b>	<b>6,648,694</b>	<b>(240,852)</b>	<b>-4%</b>
Current Liabilities	658,220	720,035	(61,815)	-9%
Noncurrent Liabilities	888,084	1,130,174	(242,090)	-21%
<b>Total Liabilities</b>	<b>1,546,304</b>	<b>1,850,209</b>	<b>(303,905)</b>	<b>-16%</b>
Net Assets:				
Invested in Capital Assets	3,991,655	3,894,463	97,192	2%
Unrestricted	869,883	904,022	(34,139)	-4%
<b>Total Net Assets</b>	<b>\$ 4,861,538</b>	<b>\$ 4,798,485</b>	<b>\$ 63,053</b>	<b>1%</b>

Total Assets of the College decreased by \$240,852 or 4% during fiscal year 2012. The 9% decrease in Current Assets is a result of cash payments made at year end to pay accounts payable, and significant decreases in grants and sponsor receivables. At June 30, 2011 the College had not received its Perkins and Short Term Intensive Training (STIT) funding for fiscal year 2011, and in fiscal year 2012 those payments were received prior to year end. These decreases were partially offset by an increase in inventory as a result of large text book purchases in June 2012 to take advantage of favorable pricing promotions.

The College's Capital Assets as of June 30, 2012 had an overall decrease of \$108,372 when compared to the balance of the prior year. Additions to capital assets included classroom furniture, a computer lab for the Student Success classroom, computer equipment for Digital Media courses, information technology servers, and construction costs for a CDL classroom. These purchases were offset by depreciation expense of \$224,947, for a combined decrease in Capital Assets of 2%.

## SOUTHWEST APPLIED TECHNOLOGY COLLEGE

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

A decrease of \$61,815 in Current Liabilities consists of changes in multiple accounts. Accounts Payable decreased 22% as a result of an increased effort to pay vendor accounts before year end. Current Liabilities also includes a decrease in Deferred Income of \$53,634 when compared to June 30, 2011. In fiscal year 2011, Deferred Income included a \$35,000 STIT payment for fiscal year 2012 training and approximately \$26,000 in student fees for fiscal year 2012 that were paid in fiscal year 2011. For fiscal year 2012, the STIT payment for fiscal year 2013 was not received until later in the year, and there was minimal student revenue for fiscal year 2013 that was received in fiscal year 2012. These decreases were offset to a small extent by an increase of the current portion of leases payable. As the leases get closer to completion, the payments toward the principal balances increase as the interest expense decreases.

Noncurrent Liabilities consist entirely of the long-term principal balances of the College's leases. Principal payments of \$205,563 were made in fiscal year 2012.

**Changes in Net Assets.** The following schedule presents a summary of changes in net assets for the College for the fiscal years ended June 30, 2012 and 2011.

<u>Net Assets</u>	<u>Year Ended</u> <u>June 30, 2012</u>	<u>Year Ended</u> <u>June 30, 2011</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
Operating Revenues	\$ 788,284	\$ 536,554	\$ 251,730	47%
Operating Expenses	4,012,890	3,655,675	357,215	10%
Operating Income (Loss)	(3,224,606)	(3,119,121)	105,485	3%
Nonoperating Revenues	3,287,659	3,154,953	132,706	4%
Net Increase in Net Assets	63,053	35,832	27,221	76%
Total Net Assets – Beginning of Year	4,798,485	4,762,653	35,832	1%
Total Net Assets – End of Year	<u>\$ 4,861,538</u>	<u>\$ 4,798,485</u>	<u>\$ 63,053</u>	<u>1%</u>

The College experienced a net operating loss of \$3,224,606 during the fiscal year. The College is a State institution and receives a large portion of its revenues from State appropriations. These appropriations are classified in the financial statements as nonoperating revenues. The State appropriation is anticipated as a means of covering a majority of the operating costs of the College; however, in fiscal year 2012, the State appropriation of \$2,192,900 was insufficient by itself to offset the operating loss.

## SOUTHWEST APPLIED TECHNOLOGY COLLEGE

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

**Revenues.** The following schedule presents a summary of College revenues for the fiscal years ended June 30, 2012 and 2011.

<u>Revenues</u>	<u>Year Ended June 30, 2012</u>	<u>Percent of Total Revenue</u>	<u>Year Ended June 30, 2011</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Operating Revenues:					
Student Tuition and Fees	\$ 543,021	13%	\$ 288,462	\$ 254,559	88%
Custom Fit Training Revenue	123,521	3%	116,782	6,739	6%
Other Revenue	121,742	3%	131,310	(9,568)	-7%
Total Operating Revenues	788,284	19%	536,554	251,730	47%
Nonoperating Revenues:					
State Appropriations	2,192,900	54%	2,206,000	(13,100)	-1%
Federal Grants and Contracts	426,309	10%	447,178	(20,869)	-5%
State and Local Grants and Contracts	658,145	16%	493,981	164,164	33%
Investment Income	10,305	0%	7,794	2,511	32%
Total Nonoperating Revenues	3,287,659	81%	3,154,953	132,706	4%
Total Revenues	\$ 4,075,943	100%	\$ 3,691,507	\$ 384,436	10%

**Operating Revenues.** Operating Revenues increased \$251,730 or 47% during the year ended June 30, 2012 when compared to the prior year. This increase is attributed to several factors which include an increase in fees and tuition rates, a 17% increase in certificates awarded, an increase in professional truck driving students and a significant off-setting decrease in the scholarship allowance.

In fiscal year 2012, tuition increased 3.3% from \$1.50 per hour to \$1.55 per hour in addition to increases in various program fees. Professional Truck Driving course fees which are significantly higher than other course fees increased approximately \$200 per student and there was a 53% increase in the number of students that completed the Professional Truck Driving course. This increase occurred in response to employment opportunities for over-the-road drivers.

In fiscal year 2012, adult students accounted for 73% of the College's membership hours, with secondary students representing 27%. This is a slightly higher percentage of adult students than in fiscal year 2011, having ratios of 68% and 32%, respectively. This change is a result of increased emphasis by the State on graduation requirements for high school students. The increased academic requirements reduce the number of elective classes available to students.

The Tuition and Fees allowances of \$232,354 and \$358,332 for fiscal years 2012 and 2011, respectively, represent tuition and fees paid by federal funding, federal and state grants, college scholarships, fee waivers, and Custom Fit. The significant decrease is primarily attributed to more of the Pell Grant funds being disbursed to students for living expenses rather than

# SOUTHWEST APPLIED TECHNOLOGY COLLEGE

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

remaining in their student accounts to be applied to future education expenses. The amount of funds disbursed to students for living expenses is included in operating expenses on the Statement of Revenues, Expenses and Changes in Net Assets.

**Nonoperating Revenues.** Nonoperating Revenues increased 4% in fiscal year 2012 with most of that increase coming from State and Local Grants and Contracts which increased from \$493,981 to \$658,145. This increase is attributable to a State Energy Sector Partnership grant to fund the growth of the College's Renewable Energy Program and a grant for the Southern Utah Renewable Energy Center (SUTREC) to promote renewable energy and advance renewable energy education, training research, technology and production. These increases were partially offset by a decrease in the funds from a State of Utah Department of Workforce Services incumbent worker training grant which expired in fiscal year 2011.

A 5% decrease in Federal Grants and Contracts was the result of a decrease in Pell grant funds in fiscal year 2012. Pell grant revenue is entirely dependent on the number of students who apply and qualify for the Pell grant funds.

Investment Income consists of interest earnings from the Utah Public Treasurers' Investment Fund for the College's State appropriations, which remain in this account until transferred to the general checking account.

**Expenses.** The following schedule presents a summary of College expenses for the fiscal years ended June 30, 2012 and 2011:

<b>Expenses</b>	<b>Year Ended June 30, 2012</b>	<b>Percent of Total Expenses</b>	<b>Year Ended June 30, 2011</b>	<b>Percent of Total Expenses</b>	<b>Increase (Decrease)</b>	<b>Percent Increase (Decrease)</b>
Operating Expenses:						
Salaries and Wages	\$ 1,585,486	40%	\$ 1,427,413	39%	\$ 158,073	11%
Employee Benefits	430,406	11%	348,677	10%	81,729	23%
Other Operating Expenses	1,772,051	44%	1,688,782	46%	83,269	5%
Depreciation	224,947	6%	190,803	5%	34,144	18%
Total Operating Expenses	<u>\$ 4,012,890</u>	100%	<u>\$ 3,655,675</u>	100%	<u>\$ 357,215</u>	10%

Salaries and Wages remained fairly consistent as a percentage of total operating costs in fiscal year 2012 and increased \$158,073 or 11% compared to the prior year. Fiscal year 2012 personnel changes that contributed to this increase were the hiring of a Director of Academics and Operations, Student Success Instructor, full-time Renewable Energy Instructor, as well as the increased use of teaching assistants in Business Technology and Information Technology classrooms and increased use of professional truck driving adjunct instructors in response to the increase of students in the Professional Truck Driving course in fiscal year 2012.

Employee Benefits also remained fairly consistent as a percentage of Total Operating Expenses and increased 23% when compared to the same expense of the prior year. The increase is a

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012**

result of hiring 3 full-time benefit-eligible employees, discussed above, as well as a 3.4% increase in the required contribution to the State and School noncontributory retirement system for all benefit-eligible employees and a 5% increase in health insurance premiums.

Other operating costs increased 5% in 2012. The increase is primarily attributable to a significant increase in Pell Grant disbursements to students for living expenses rather than the funds remaining in their student accounts to be applied to future education expenses. This increase was partially offset by a decrease in purchased services as a result of hiring a Vice President of Instruction and Operations. In fiscal year 2011 the Operations position was filled via a contractual agreement with an outside entity. Other notable changes in other operating costs included increases in teaching supplies to support programs, increases in the cost of advertising in local newspapers, and a 78% increase in diesel fuel expense. The increase in diesel fuel expense is as expected considering the increase in number of students and rising diesel fuel costs. Depreciation expense increased in fiscal year 2012 as a result of a full year of depreciation expense for equipment purchased at the end of fiscal year 2011 and various 2012 capital expenditures.

### **Economic Overview and Outlook**

Utah typically grows more rapidly than the nation after recessions, and this pattern is continuing in the current recovery. For the U.S., employment grew 1.4% in calendar year 2012, compared to 3.2% for Utah. While employment increased during calendar year 2012, Utah's unemployment rate improved to 5.7%, lower than the rate in calendar year 2011.

Utah's job growth is expected to grow at 3.5%, which is above its long-term average of 3.1%, while the nation stays at 1.4%. With job growth near the long-term average, the unemployment rate will decrease to 5.4%. In contrast to the early stages of the recovery, housing will provide noticeable support to the expansion. Construction employment is expected to grow 9.4% in calendar year 2013. The continuing housing recovery accounts for most of the strong showing in construction.

State Legislative Leadership has indicated that state tax revenues are improving as the general economy of the State recovers. As the school receives a large portion of its funding through the State of Utah, continued effects of the general economic conditions will have an impact on the College's ability to provide services to students and employers in our service region.

### **Requests for Information**

This financial report is designed to provide a general overview of the College's finances and to show the College's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Southwest Applied Technology College, 510 West 800 South, Cedar City, UT 84720.

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## STATEMENT OF NET ASSETS JUNE 30, 2012

### **ASSETS**

#### **Current Assets**

Cash and Cash Equivalents (Notes 1 and 2)	\$ 1,090,431
Accounts Receivable	
Due from Primary Government	67,292
Other (Note 3)	45,420
Prepaid Expenses	5,404
Inventories (Note 1)	77,467
<b>Total Current Assets</b>	<b>1,286,014</b>

#### **Noncurrent Assets (Notes 1 and 4)**

Land	2,403,442
Buildings	2,688,722
Improvements	166,139
Equipment	1,340,217
Less Accumulated Depreciation	(1,476,692)
<b>Total Noncurrent Assets</b>	<b>5,121,828</b>
<b>Total Assets</b>	<b>6,407,842</b>

### **LIABILITIES**

#### **Current Liabilities**

Accounts Payable (Note 3)	262,389
Accrued Payroll Expenses	116,567
Accrued Compensated Absences	30,127
Deferred Income	7,048
Capital Leases Payable (Notes 5 and 6)	242,089
<b>Total Current Liabilities</b>	<b>658,220</b>

#### **Noncurrent Liabilities**

Capital Leases Payable (Notes 5 and 6)	888,084
<b>Total Noncurrent Liabilities</b>	<b>888,084</b>
<b>Total Liabilities</b>	<b>1,546,304</b>

### **NET ASSETS**

Invested in Capital Assets (Net of Related Debt)	3,991,655
Unrestricted	869,883
<b>Total Net Assets</b>	<b>\$ 4,861,538</b>

*The accompanying notes are an integral part of these financial statements.*

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2012

### **OPERATING REVENUES (Note 1)**

Student Tuition and Fees (Net of Scholarship Allowance of \$232,354)	\$ 543,021
Custom Fit Training Revenue	123,521
Other Revenue	121,742
<b>Total Operating Revenues</b>	<u>788,284</u>

### **OPERATING EXPENSES (Note 1)**

Salaries and Wages	1,585,486
Employee Benefits	430,406
Purchased Services	484,556
Other Operating Expenses	1,059,370
Scholarship Expense	228,125
Depreciation	224,947
<b>Total Operating Expenses</b>	<u>4,012,890</u>

**Operating Loss** (3,224,606)

### **NONOPERATING REVENUES**

State Appropriations	2,192,900
Federal Grants and Contracts	426,309
State and Local Grants and Contracts	658,145
Investment Income	10,305
<b>Net Nonoperating Revenues</b>	<u>3,287,659</u>

**Increase in Net Assets** 63,053

### **NET ASSETS**

Net Assets – Beginning of Year	<u>4,798,485</u>
Net Assets – End of Year	<u>\$ 4,861,538</u>

*The accompanying notes are an integral part of these financial statements.*

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2012

### **CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Tuition and Fees	\$ 585,885
Receipts from Other Revenue Sources	121,742
Receipts from Custom Fit Training Revenue	123,521
Payments for Salaries and Benefits	(1,988,142)
Payments to Students and Suppliers	(1,880,178)
Net Cash Used by Operating Activities	<u>(3,037,172)</u>

### **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Receipts from State Appropriations	2,192,900
Receipts from Nonoperating Grants and Contracts	1,103,178
Net Cash Provided by Noncapital Financing Activities	<u>3,296,078</u>

### **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Cash Paid for Capital Assets	(116,574)
Cash Paid for Capital Debt and Leases	(205,564)
Net Cash Used by Capital and Related Financing Activities	<u>(322,138)</u>

### **CASH FLOWS FROM INVESTING ACTIVITIES**

Receipt of Interest on Investments	10,305
Net Cash Provided by Investing Activities	<u>10,305</u>

**Net Decrease in Cash and Cash Equivalents** (52,927)

**CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR** 1,143,358

**CASH AND CASH EQUIVALENTS – END OF YEAR** \$ 1,090,431

### **RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (3,224,606)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	224,947
Changes in Assets and Liabilities	
Accounts Receivable	61,498
Inventories	(38,418)
Prepaid Expenses	2,722
Accounts Payable	(72,431)
Accrued Payroll and Benefits	27,750
Deferred Income	(18,634)
Net Cash Used by Operating Activities	<u>\$ (3,037,172)</u>

*The accompanying notes are an integral part of the financial statements.*

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Southwest Applied Technology College (College) have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

#### Reporting Entity

The College is a regional college within the Utah College of Applied Technology (UCAT). UCAT is considered a component unit of the State of Utah and is included in the State's *Comprehensive Annual Financial Report*. UCAT is considered a component unit because it was established under Utah Statute, receives appropriations from the State, and is financially accountable to the State.

The College was established by the Utah State Legislature to offer career and technological education to secondary and adult students. Effective September 1, 2001, the Legislature created UCAT which is composed of eight regional applied technology colleges. Southwest Applied Technology College became one of these regional applied technology colleges and became an institution within and subject to the authority of the Utah System of Higher Education. The College is under the control of the UCAT Board of Trustees and is governed directly by the College's Local Board of Directors.

Funding for the College is received primarily from direct appropriations from the Utah State Legislature, as well as tuition and fees, and grants and contracts from state and local agencies.

The College's financial statements encompass all of its operations, including restricted and unrestricted funds.

#### Measurement Focus and Basis of Accounting

The financial statements of the College are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governmental entities also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The College has elected not to follow subsequent private-sector guidance.

The College distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the College's principal mission of instruction. Operating revenues include activities that have the characteristics of exchange transactions such as tuition and fees and Custom Fit revenues. Operating expenses include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

### Deposits and Investments

The College's cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and amounts invested with the Utah Public Treasurers' Investment Fund.

Cash and investment management at the College is administered in accordance with the State of Utah Money Management Act (*Utah Code*, Title 51, Chapter 7).

Investments for the College are reported at fair value.

### Inventory

Inventory consists of text books and materials sold to students and is valued at the lower of cost or market.

### Capital Assets

Capital assets include property, buildings, and equipment. Capital assets are defined by the College as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

# SOUTHWEST APPLIED TECHNOLOGY COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

The costs of normal maintenance and repairs that do not add to the capacity of the asset or materially extend assets' lives are not capitalized. All land is capitalized and not depreciated.

Capital assets are being depreciated over their estimated useful lives using the straight-line method of depreciation. The estimated useful life of an asset is determined at acquisition based on guidelines of the Utah System of Higher Education and the professional judgment of the applicable department head.

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements	10
Equipment and Vehicles	3-10

### NOTE 2. DEPOSITS AND INVESTMENTS

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted under the authority of the Money Management Act that relate to the deposit and investment of public funds.

The College follows the requirements of the Money Management Act in handling its depository and investment transactions. The Act requires the depositing of the College's funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

#### *Deposits*

#### *Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a formal deposit policy for

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

custodial credit risk. As of June 30, 2012, \$179,292 of the College's bank balances of \$429,292 was uninsured and uncollateralized.

### *Investments*

The Money Management Act defines the types of securities authorized as appropriate investments for the College's funds and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

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

The Utah State Treasurer's Office operates the PTIF. The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act. The Act established the Utah Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participants' average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

For the year ended June 30, 2012, the College had investments of \$1,000,342 with the PTIF. The entire balance had a maturity of less than one year.

### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Money Management Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270 days – 13 months or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's policy for reducing its exposure to credit risk is to comply with the Money Management Act, as previously discussed. The College's investments in the PTIF at June 30, 2012 were all unrated.

### NOTE 3. ACCOUNTS RECEIVABLE AND PAYABLE

Other accounts receivable at June 30, 2012 consist of unpaid student tuition and fee charges of \$42,950, and \$2,470 of various miscellaneous receivables. Accounts payable at June 30, 2012 consist of reimbursements owed to students for tuition and fee refunds and Pell funding to be applied to fiscal year 2013 tuition and fees totaling \$158,223, and other miscellaneous payments to vendors, totaling \$104,166.

## SOUTHWEST APPLIED TECHNOLOGY COLLEGE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

#### NOTE 4. CAPITAL ASSETS

Additions to capital assets include amounts paid for by the College. Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,403,442	\$ -	\$ -	\$ 2,403,442
Buildings	2,688,722	-	-	2,688,722
Improvements	140,068	26,071	-	166,139
Equipment	1,249,714	90,503	-	1,340,217
Total	6,481,946	116,574	-	6,598,520
Less Accumulated Depreciation:				
Buildings, Improvements, and Equipment	(1,251,745)	(224,947)	-	(1,476,692)
Net Capital Assets	\$ 5,230,201	\$ (108,373)	\$ -	\$ 5,121,828

#### NOTE 5. CAPITAL LEASE OBLIGATIONS

The College has incurred capital lease obligations for rental of various instruction and related facilities. The cost of the buildings held under capital leases and related depreciation totaled \$2,688,723 and \$661,109, respectively, as of June 30, 2012. The future minimum lease payments for all capital leases as of June 30, 2012, were as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 242,089	\$ 32,911	\$ 275,000
2014	249,381	25,619	275,000
2015	216,893	18,107	235,000
2016	223,433	11,567	235,000
2017	100,169	4,831	105,000
2018	98,208	1,792	100,000
Total Capital Leases	\$ 1,130,173	\$ 94,827	\$ 1,225,000

## SOUTHWEST APPLIED TECHNOLOGY COLLEGE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

#### NOTE 6. LONG-TERM LIABILITIES

The following is a summary of the changes to the College's long-term liabilities during the fiscal year ended June 30, 2012.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital Leases	\$ 1,335,736	\$ -	\$ (205,563)	\$ 1,130,173	\$ 242,089

#### NOTE 7. OPERATING LEASES

In May of 2009, the College entered into a lease for rental of instruction and related facilities. The lease is subject to funds being appropriated to continue the lease obligation. As funding is reasonably assured, the lease is considered non-cancelable for financial reporting purposes. Operating lease payments are recorded as expenses when incurred. For the year ended June 30, 2012, operating lease expenses totaled \$307,975. The future lease payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 304,800
2014	304,800
Total Future Operating Lease Payments	\$ 609,600

#### NOTE 8. DEFINED BENEFIT PENSION PLANS

##### Plan Description

The College contributes to the State and School Noncontributory Retirement System, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems. The Utah Retirement Systems provides refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with the retirement statutes.

The Utah Retirement Systems are established and governed by the respective sections of Title 49 of the *Utah Code*. The Utah Retirement Office Act in Title 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

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012**

Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information of State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

### **Funding Policy**

In the State and School Noncontributory Retirement System, the College was required to contribute 16.86% of the Tier 1 benefit eligible employee's annual covered salary in 2012. Tier 1 employees are those that became benefit eligible prior to July 1, 2011. The contribution rate for Tier 2 employees was 12.74% for fiscal year 2012. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The College's contributions to the Noncontributory Retirement System for the years ended June 30, 2012, 2011, and 2010 were \$177,919, \$151,002 and \$128,534 respectively. The contributions were equal to the required contributions for each year.

### **Defined Contribution Plans**

Noncontributory retirement plan employees are also eligible to participate in a deferred compensation 401(k) defined contribution plan. The College is required to contribute 1.5% of eligible employees' gross earnings to the plan. Contributions to the 401(k) plan for the years ended June 30, 2012, 2011 and 2010, totaled \$161,495, \$13,803 and \$13,558, respectively. The 2012 contribution of \$161,495 included the 1.5% required contribution in addition to \$111,612 that was received by the College as a refund of employer Social Security for the period from January 1, 2008 through September 30, 2011. The \$161,495 also included what the College would have paid into Social Security (currently 6.2%) on behalf of the retirement eligible employees (also see Footnote 11). College employees made voluntary contributions to the 401(k) plan of \$64,866 for the year ended June 30, 2012.

### **NOTE 9. COMPENSATED ABSENCES**

The College accrues and reports annual vacation leave in the year earned. Eligible salaried employees earn vacation leave for each month worked at a rate between 12 and 28 days per year. There is a maximum carryover of 5 days (8 hour days) adjusted each year at September 30<sup>th</sup>. All accumulated days above the 5 maximum are lost if not used prior to that time, with the exception of the College President who is allowed to carry over 30 days as determined by the Board of Directors. Upon termination, the cash value

# **SOUTHWEST APPLIED TECHNOLOGY COLLEGE**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012**

of accumulated unused annual leave calculated by multiplying the employee's current hourly rate by the number of accrued hours of annual leave will be paid directly to the employee, subject to the IRS rules and regulations as taxable compensation.

### **NOTE 10. RISK MANAGEMENT**

The College maintains insurance coverage for commercial general liability, automobile, errors and omissions, and property (buildings and equipment) through policies administered by the Utah State Risk Management Fund. Employees of the College and authorized volunteers are covered by worker's compensation and employees' liability through the Workers Compensation Fund of Utah.

### **NOTE 11. SOCIAL SECURITY EXEMPTION**

Retirement benefit eligible employees of all Utah College of Applied Technology (UCAT) campuses voted in a referendum on September 6, 2011, on the issue of whether to join the federal social security program ("Social Security"). The majority of eligible voters voted to not join Social Security. As a result, UCAT campuses, including Southwest Applied Technology College (the College) do not participate in the Federal Social Security system with the exception of the 1.45% of wages paid towards Medicare benefits. As an alternative, College management encourages all retirement benefit eligible employees to contribute what would have been paid to Social Security to a qualified 401(k) plan. The College contributes what it would have paid into Social Security (currently 6.2%) on behalf of the Retirement eligible employees to a 401(k) plan established at either Utah Retirement Systems or Educators Mutual Insurance. The College requested refunds of amounts paid into the social security system by both the employer and employee during years 2008-2011. The employer portion of the refund was deposited into employee 401(k) plans at either Utah Retirement Systems or Educators Mutual Insurance.



STATE OF UTAH  
**OFFICE OF THE STATE AUDITOR**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors, Audit Committee,  
and  
Dana L. Miller, Campus President  
Southwest Applied Technology College

We have audited the financial statements of Southwest Applied Technology College (the College) as of and for the year ended June 30, 2012, and have issued our report thereon dated February 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the College's Board of Directors, Audit Committee, management, and the Utah College of Applied Technology and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Office of the Utah State Auditor".

Office of the Utah State Auditor  
February 21, 2013