

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

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

Annual Financial Report
and
Government Auditing Standards Report
For the Year Ended June 30, 2013

Report No. 13-42



**OFFICE OF THE
UTAH STATE AUDITOR**

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AUDIT LEADERSHIP:

Hollie Andrus, CPA, Audit Director

Ariane Gibson, CPA, Audit Senior

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

FOR THE YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT STATE AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS:	
Statement of Net Position	9
Statement of Revenues, Expenses, and Changes in Net Position	10
Statement of Cash Flows	11
Notes to the Financial Statements	12
INDEPENDENT STATE AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	21



OFFICE OF THE
UTAH STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Southwest Applied Technology College (the College), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's financial statements, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Southwest Applied Technology College are intended to present the financial position, the changes in financial position, and the 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, 2013, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Office of the Utah State Auditor

Office of the Utah State Auditor
January 13, 2014

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013 (Unaudited)

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, 2013 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 Position, 2) the Statement of Revenues, Expenses, and Changes in Net Position, 3) the Statement of Cash Flows, and 4) the Notes to the Financial Statements.

Statement of Net Position. The Statement of Net Position 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 position. The information provided in the Statement of Net Position along with disclosures and other information contained in the Statement of Revenues, Expenses, and Changes in Net Position; 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 Position. The Statement of Revenues, Expenses, and Changes in Net Position 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 position of the College. The information in this statement, together with information in the Statement of Net Position, 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, 2013 (Unaudited)

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 Position. The following schedule presents a summary of the College's assets, liabilities, and net position as of June 30, 2013 and 2012:

<u>Net Position</u>	<u>Year Ended</u> <u>June 30, 2013</u>	<u>Year Ended</u> <u>June 30, 2012</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
Current Assets	\$ 1,077,194	\$ 1,286,014	\$ (208,820)	-16%
Capital Assets	4,995,601	5,121,828	(126,227)	-2%
Total Assets	<u>6,072,795</u>	<u>6,407,842</u>	<u>(335,047)</u>	<u>-5%</u>
Current Liabilities	596,254	658,220	(61,966)	-9%
Noncurrent Liabilities	691,725	888,084	(196,359)	-22%
Total Liabilities	<u>1,287,979</u>	<u>1,546,304</u>	<u>(258,325)</u>	<u>-17%</u>
Net Position:				
Net Investment in Capital Assets	4,081,658	3,991,655	90,003	2%
Unrestricted	703,158	869,883	(166,725)	-19%
Total Net Position	<u>\$ 4,784,816</u>	<u>\$ 4,861,538</u>	<u>\$ (76,722)</u>	<u>-2%</u>

Total Assets of the College decreased by \$335,047 or 5% during fiscal year 2013. The 16% decrease in Current Assets is a result of draws from the Public Treasurers' Investment Fund for payroll, the operating expenses of a development director to raise funds for the College, and the purchase of necessary capital assets.

The College's Capital Assets as of June 30, 2013 decreased 2% when compared to the balance of the prior year. Additions to capital assets included, a mobile computer lab, an addition to the college's vehicle fleet and a used tractor for the professional truck driving program. These purchases were offset by depreciation expense of \$223,511 for a net decrease in Capital Assets of \$126,227.

A decrease of \$61,966 in Current Liabilities consists of changes in multiple accounts. Accounts payable decreased 22% as a result of fewer credit balances in student accounts at year end offset slightly by an increase in Accounts Payable to reimburse Custom Fit clients for training prior to year end. In addition, the current portion of capital leases payable decreased \$19,871 as a result

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013 (Unaudited)

of an amendment to the lease agreement for the Kane Campus building. The amendment decreased the quarterly lease payment from \$26,250 to \$18,750 and extended the length of the lease by 3 years. The current liability decreases were partially offset by an increase in Unearned Revenue of \$12,736 when compared to June 30, 2012. At June 30, 2013 unearned revenue included payments received for Professional Truck Driving and Nursing Assistant courses that began July 8, 2013. Professional Truck Driving is the College's most expensive course and there were no such fees in the unearned revenue balance at June 30, 2012.

Noncurrent Liabilities consist entirely of the long-term principal balances of the College's leases. Principal payments of \$216,230 were made in fiscal year 2013.

Changes in Net Position. The following schedule presents a summary of the College's changes in net position for the fiscal years ended June 30, 2013 and 2012.

<u>Net Position</u>	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2012</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Operating Revenues	\$ 778,790	\$ 788,284	\$ (9,494)	-1%
Operating Expenses	4,200,601	4,012,890	187,711	5%
Operating Income (Loss)	(3,421,811)	(3,224,606)	197,205	14%
Nonoperating Revenues	3,345,089	3,287,659	57,430	2%
Net (Decrease) Increase in Net Position	(76,722)	63,053	(139,775)	-222%
Total Net Position – Beginning of Year	4,861,538	4,798,485	63,053	1%
Total Net Position – End of Year	<u>\$ 4,784,816</u>	<u>\$ 4,861,538</u>	<u>\$ (76,722)</u>	-2%

The College experienced a net operating loss of \$3,421,811 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 2013, the State appropriation of \$2,462,500 was insufficient by itself to offset the operating loss.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013 (Unaudited)

Revenues. The following schedule presents a summary of College revenues for the fiscal years ended June 30, 2013 and 2012.

<u>Revenues</u>	<u>Year Ended June 30, 2013</u>	<u>Percent of Total Revenue</u>	<u>Year Ended June 30, 2012</u>	<u>Percent of Total Revenue</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Operating Revenues:						
Student Tuition and Fees	\$ 493,215	12%	\$ 543,021	13%	\$ (49,806)	-9%
Custom Fit Training Revenue	183,741	4%	123,521	3%	60,220	49%
Other Revenue	101,834	2%	121,742	3%	(19,908)	-16%
Total Operating Revenues	778,790	19%	788,284	19%	(9,494)	-1%
Nonoperating Revenues:						
State Appropriations	2,462,500	60%	2,192,900	54%	269,600	12%
Federal Grants and Contracts	303,775	7%	426,309	10%	(122,534)	-29%
State and Local Grants and Contracts	570,339	14%	658,145	16%	(87,806)	-13%
Investment Income	8,475	0%	10,305	0%	(1,830)	-18%
Total Nonoperating Revenues	3,345,089	81%	3,287,659	81%	57,430	2%
Total Revenues	\$ 4,123,879	100%	\$ 4,075,943	100%	\$ 47,936	1%

Operating Revenues. Operating Revenues decreased by \$9,494, or 1%, during the year ended June 30, 2013 when compared to the prior year. This net decrease is attributed to several factors which include a \$60,220 increase in Custom Fit Training Revenue offset by decreases in Student Tuition and Fees and Other Revenue.

In fiscal year 2013, tuition increased 9.67% from \$1.55 per hour to \$1.70 per hour; however, the College experienced a 23% decrease in membership hours to offset the increase in tuition prices, which resulted in an overall decrease in Student Tuition and Fees. The College has identified several probable causes for the decrease and has implemented an enrollment growth plan for fiscal year 2014.

During fiscal year 2013, the regional employment market picked up significantly. With the improvement in the employment market, many students have shortened their length of training time at the College or have discontinued their education for employment opportunities. Technology training is designed to provide job skills that will assist students in gaining employment and was, thus, adversely affected by the improved economy.

The College's secondary student enrollment was affected by the Iron County School District limiting enrollment in the College's introductory courses to students in the 11th and 12th grades. Students in the 9th and 10th grades were not allowed to enroll. This change in district policies affected the Welding and Information Technology programs significantly.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013 (Unaudited)

Another factor that contributed to the decline in student enrollment was the State Energy Sector Partnership (SESP) grant concluding in fiscal year 2013. Alternate financial aid options were not available for the renewable energy courses.

The Tuition and Fees allowances of \$133,322 and \$232,354 for fiscal years 2013 and 2012 respectively, represent tuition and fees paid by federal financial aid, federal and state grants, College scholarships, fee waivers, and the employer services Custom Fit program. The significant decrease is primarily attributed to a 39% decrease in pell grant funds awarded, a larger percentage of pell funds distributed to students for living expenses, and the mid-year elimination of SESP grant funds. 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 Position.

Nonoperating Revenues

Nonoperating Revenues increased 2% in fiscal year 2013 as a result of a \$210,340 decrease in state and federal grants and contracts offset by a \$269,600 increase in State Appropriations. The increased state appropriation included \$253,000 of new money to reduce course waiting lists, retain faculty previously funded by a state grant, and expand course offerings in addition to \$16,600 for a 1% employee cost of living adjustment. The decrease in state and federal grants and contracts is attributable to a decline in pell grants and the conclusion of a State Energy Sector Partnership grant both of which have been discussed previously. 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. The College's State appropriation remains in this account until transferred to the general checking account to cover operating expenses.

Expenses. The following schedule presents a summary of College expenses for the fiscal years ended June 30, 2013 and 2012:

<u>Expenses</u>	<u>Year Ended</u> <u>June 30, 2013</u>	<u>Percent of</u> <u>Total</u> <u>Expenses</u>	<u>Year Ended</u> <u>June 30, 2012</u>	<u>Percent of</u> <u>Total</u> <u>Expenses</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
Operating Expenses:						
Salaries and Wages	\$ 1,705,138	41%	\$ 1,585,486	40%	\$ 119,652	8%
Employee Benefits	507,573	12%	430,406	11%	77,167	18%
Other Operating Expenses	1,764,379	42%	1,772,051	43%	(7,672)	-0.4%
Depreciation	223,511	5%	224,947	6%	(1,436)	-1%
Total Operating Expenses	<u>\$ 4,200,601</u>	<u>100%</u>	<u>\$ 4,012,890</u>	<u>100%</u>	<u>\$ 187,711</u>	<u>5%</u>

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013 (Unaudited)

Salaries and Wages were 41% of total operating costs in 2013 and increased \$119,652, or 8%, and Employee Benefits increased \$77,167, or 18%. Fiscal year 2013 personnel changes that contributed to these increases were the hiring of a full-time Development Director for campus fund raising, a part-time Student Counselor, a full-time Business Technology Instructor and a full-time Coordinator for the Kane Campus.

Other Operating Expenses decreased by 0.4% in fiscal year 2013. The decrease is attributable to various fluctuations in teaching supplies to support programs and overhead costs. There were significant decreases in the cost of professional truck driving repairs, maintenance, and diesel fuel expense which is consistent with a decrease of 32 students in that program during fiscal year 2013. Other notable changes were an increase in purchased services related to Custom Fit training and a decrease in scholarship expense both discussed previously, a decrease in interest expense related to a declining balance in leases payable and an increase in expenses related to the College's accreditation review that took place in April 2013. Depreciation expense decreased in fiscal year 2013 as a result of fully depreciated capital assets that are still in use.

Economic Overview and Outlook

Utah typically grows more rapidly than the nation after recessions and this pattern is continuing in the current recovery. Utah's unemployment rate improved from 6% in June of 2012 to 4.6% in October 2013 compared to the national rate of 8.2% and 7.3%, respectively. All of the eleven private sector industries posted net job increases in October 2013 as compared to October of 2012. The largest increases were in Trade, Transportation and Utilities (7,600 jobs), Leisure and Hospitality (5,800 jobs) and Education and Health (5,600 jobs).

The Utah State Tax Commission reports that taxable sales for the first two quarters of calendar year 2013 are up 3.09% over the prior year for the same period. As the College 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 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 POSITION

JUNE 30, 2013

ASSETS

Current Assets

Cash and Cash Equivalents (Notes 1 and 2)	\$ 904,990
Accounts Receivable	
Due from Primary Government	35,309
Other (Note 3)	69,654
Prepaid Expenses	3,186
Inventories (Note 1)	64,055
Total Current Assets	<u>1,077,194</u>

Noncurrent Assets (Notes 1 and 4)

Land	2,403,442
Buildings	2,688,722
Improvements	166,139
Equipment	1,366,028
Less Accumulated Depreciation	(1,628,730)
Total Noncurrent Assets	<u>4,995,601</u>

Total Assets 6,072,795

LIABILITIES

Current Liabilities

Accounts Payable (Note 3)	205,351
Accrued Payroll Expenses	116,748
Accrued Compensated Absences	32,153
Unearned Revenue	19,784
Capital Leases Payable (Notes 5 and 6)	222,218
Total Current Liabilities	<u>596,254</u>

Noncurrent Liabilities

Capital Leases Payable (Notes 5 and 6)	691,725
Total Noncurrent Liabilities	<u>691,725</u>

Total Liabilities 1,287,979

NET POSITION

Net Investment in Capital Assets	4,081,658
Unrestricted	703,158

Total Net Position \$ 4,784,816

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

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2013

OPERATING REVENUES (Note 1)

Student Tuition and Fees (Net of Scholarship Allowance of \$133,322)	\$ 493,215
Custom Fit Training Revenue	183,741
Other Revenue	101,834
Total Operating Revenues	<u>778,790</u>

OPERATING EXPENSES (Note 1)

Salaries and Wages	1,705,138
Employee Benefits	507,573
Purchased Services	595,095
Other Operating Expenses	997,922
Scholarship Expense	171,362
Depreciation	223,511
Total Operating Expenses	<u>4,200,601</u>

Operating Income (Loss) (3,421,811)

NONOPERATING REVENUES

State Appropriations	2,462,500
Federal Grants and Contracts	303,775
State and Local Grants and Contracts	570,339
Investment Income	8,475
Net Nonoperating Revenues	<u>3,345,089</u>

Increase (Decrease) in Net Position (76,722)

NET POSITION

Net Position – Beginning of Year	<u>4,861,538</u>
Net Position – End of Year	<u>\$ 4,784,816</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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Tuition and Fees	\$ 544,369
Receipts from Other Revenue Sources	101,834
Receipts from Custom Fit Training Revenue	183,741
Payments for Salaries and Benefits	(2,210,504)
Payments to Students and Suppliers	(1,805,787)
Net Cash Used by Operating Activities	<u>(3,186,347)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Receipts from State Appropriations	2,462,500
Receipts from Nonoperating Grants and Contracts	843,445
Net Cash Provided by Noncapital Financing Activities	<u>3,305,945</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Paid for Capital Assets	(97,284)
Cash Paid for Capital Debt and Leases	(216,230)
Net Cash Used by Capital and Related Financing Activities	<u>(313,514)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of Interest on Investments	8,475
Net Cash Provided by Investing Activities	<u>8,475</u>

Net Decrease in Cash and Cash Equivalents (185,441)

CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR 1,090,431

CASH AND CASH EQUIVALENTS – END OF YEAR \$ 904,990

RECONCILIATION OF OPERATING LOSS TO

NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (3,421,811)
Adjustments to Reconcile Operating Loss to Net Cash	
Used by Operating Activities	
Depreciation Expense	223,511
Changes in Assets and Liabilities	
Accounts Receivable	38,418
Inventories	13,412
Prepaid Expenses	2,218
Accounts Payable	(57,038)
Accrued Payroll and Benefits	2,207
Unearned Revenue	12,736
Net Cash Used by Operating Activities	<u>\$ (3,186,347)</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, 2013

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.

In February 2013, SWATC Partners, a legally separate non-profit corporation, was incorporated under Utah law to support the growth and development of Southwest Applied Technology College (the College) by generating financial and political resources that will facilitate the growth and development of the College and its programs and students. SWATC Partners was organized exclusively for charitable and educational purposes under Section 501(c)(3) of the Internal Revenue Code; and at June 30, 2013, the organization's 501(c)(3) status was pending approval by the Internal Revenue Service. SWATC Partners is a blended component unit of the College and had very limited financial activity during fiscal year 2013. A blended component unit is an entity which is legally separate from the College but which is so intertwined with the College that it is, in substance, the same as the

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

College. The College appoints a controlling number of positions on the Board of Directors and has the ability to significantly influence the programs, projects, and activities of the entity.

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.

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 textbooks and materials sold to students and is valued at the lower of cost or market.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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.

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.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 custodial credit risk. As of June 30, 2013, all of the College's bank balances were insured.

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.

These 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; 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 Securities Exchange Commission (SEC) as an investment company. The PTIF is authorized and regulated by the Money Management Act. The Act established the 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

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

participants' average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

For the year ended June 30, 2013, the College had investments of \$846,307 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 – 15 months or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 3 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 PTIF at June 30, 2013 were all unrated.

NOTE 3. ACCOUNTS RECEIVABLE AND PAYABLE

Other accounts receivable at June 30, 2013 consist of Federal Grants and Contracts of \$52,869, unpaid student tuition and fee charges of \$10,174, and \$6,611 of various miscellaneous receivables. Accounts payable at June 30, 2013 consist of reimbursements owed to students for tuition and fee refunds and Pell funding to be applied to fiscal year 2014 tuition and fees totaling \$73,234, and other miscellaneous payments to vendors, totaling \$132,117.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,403,442	\$ -	\$ -	\$ 2,403,442
Buildings	2,688,722	-	-	2,688,722
Improvements	166,139	-	-	166,139
Equipment	1,340,217	97,284	(71,473)	1,366,028
Total	6,598,520	97,284	(71,473)	6,624,331
Less Accumulated Depreciation:				
Buildings, Improvements, and Equipment	(1,476,692)	(223,511)	71,473	(1,628,730)
Net Capital Assets	\$ 5,121,828	\$ (126,227)	\$ -	\$ 4,995,601

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 \$2,688,722 and \$728,567, respectively, as of June 30, 2013. The future minimum lease payments for all capital leases as of June 30, 2013, were as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 222,218	\$ 22,782	\$ 245,000
2015	188,374	16,626	205,000
2016	193,505	11,495	205,000
2017	68,777	6,223	75,000
2018 –2021	241,069	9,601	250,670
Total Capital Leases	\$ 913,943	\$ 66,727	\$ 980,670

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Leases	\$ 1,130,173	\$ -	\$ (216,230)	\$ 913,943	\$ 222,218

NOTE 7. OPERATING LEASES

In May of 2009, the College entered into a 5-year lease with \$300,000 in annual payments 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. The College also has a month-to-month office space lease to provide business technology students with practical work experience and the College rents parking space for the professional truck driving program on a month-to-month lease. Operating lease payments are recorded as expenses when incurred. For the year ended June 30, 2013, operating lease expenses totaled \$315,600.

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 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.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Funding Policy

In the State and School Noncontributory Retirement System, the College was required to contribute 18.76% of the Tier 1 benefit eligible employee's annual covered salary in 2013. Tier 1 employees are those that became benefit eligible prior to July 1, 2011. The contribution rate for Tier 2 employees was 15.06% for fiscal year 2013. The contribution rates are 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, 2013, 2012, and 2011 were \$209,884, \$177,919, and \$151,002, 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, 2013, 2012, and 2011, totaled \$69,740, \$161,495, and \$13,803, respectively.

In September of 2011, eligible employees of the Utah College of Applied Technology (UCAT) voted to discontinue their participation in Social Security Administration as allowed under the guidelines of Section 218 of the Social Security Act. As a result, beginning in October of 2011, the College began contributing 6.2% of these eligible employees' salaries into their respective 401(k) accounts at either Utah Retirement Systems or Educators Mutual Insurance.

The 2013 401(k) contribution to Utah Retirement Systems of \$69,740 includes the 1.5% required contribution in addition to the 6.2% that the College would have paid into Social Security on behalf of the retirement eligible employees. College employees made voluntary contributions of \$60,526 to the Utah State Retirement 401(k) plan and \$20,041 to the Educators Mutual 401(k) plan for the year ended June 30, 2013 .

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 30th. 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 of accumulated

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 workers' compensation and employees' liability through the Workers Compensation Fund of Utah.



OFFICE OF THE
UTAH STATE AUDITOR

**INDEPENDENT STATE AUDITOR'S 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, in accordance with the 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, the financial statements of Southwest Applied Technology College (the College) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's financial statements, and have issued our report thereon dated January 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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 to 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of the Utah State Auditor

Office of the Utah State Auditor
January 13, 2014