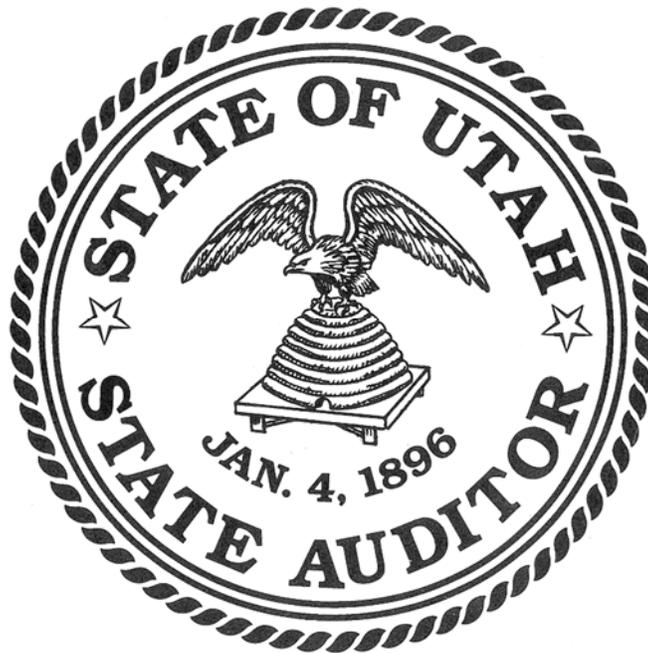


SOUTHWEST TECHNICAL COLLEGE

A Component Unit of the State of Utah

Annual Financial Report
and
Government Auditing Standards Report
For the Year Ended June 30, 2018

Report No. 18-42



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Jason Allen, CPA, CFE, Senior Audit Manager
Sean Clayton, Audit Senior
Will Maguire, Audit Senior

SOUTHWEST TECHNICAL COLLEGE

FOR THE YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT STATE AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	12
Statement of Revenues, Expenses, and Changes in Net Position	13
Statement of Cash Flows	14
Notes to the Financial Statements	15
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Southwest Technical College's Proportionate Share of the Net Pension Liability	30
Schedule of Southwest Technical College's Pension Contributions	31
Notes to the Schedule of Pension Contributions	32
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>	33



OFFICE OF THE
STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Directors, Audit Committee
and

Brennan M. Wood, President
Southwest Technical College

Report on the Financial Statements

We have audited the accompanying financial statements of the Southwest Technical College (the College), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, as listed in the table of contents. The College 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, 2018, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the College's Schedule of Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 February 15, 2019 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 State Auditor

Office of the State Auditor
February 15, 2019

SOUTHWEST TECHNICAL COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018 (Unaudited)

As management of the Southwest Technical College (College), we offer this narrative overview and analysis of the financial activities of the College for the fiscal year ending June 30, 2018 to the readers of the College's financial statements.

As of July 1, 2017, the College is one of eight independent technical colleges within the Utah System of Technical Colleges (USTC). The College is a legally separate entity and is considered a component unit of the State of Utah. Additional information on the College's relationship to USTC can be found in Note 1 of the Notes to the Financial Statements.

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, deferred outflows of resources, liabilities, and deferred inflows of resources at the end of the fiscal year, with the difference 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 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 position on both its cash and noncash investing, capital, and financing transactions during the fiscal year.

SOUTHWEST TECHNICAL COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018 (Unaudited)

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

Statement of Net Position. The following schedule presents a summary of the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2018 and 2017:

Condensed Statement of Net Position

	June 30, 2018	June 30, 2017	Amount of	Percent
	Amount	Amount	Change	Change
Assets				
Current Assets	\$ 3,378,581	\$ 2,604,709	\$ 773,872	29.71%
Noncurrent Assets				
Capital Assets, Net	24,130,254	24,590,345	(460,091)	(1.87%)
Total Assets	27,508,835	27,195,054	313,781	1.15%
Deferred Outflows of Resources	860,673	867,789	(7,116)	(.82%)
Liabilities				
Current Liabilities	793,197	814,535	(21,338)	(2.62%)
Noncurrent Liabilities	1,342,081	1,788,156	(446,075)	(24.95%)
Total Liabilities	2,135,278	2,602,691	(467,413)	(17.96%)
Deferred Inflows of Resources	606,308	200,110	406,198	202.99%
Net Position				
Net Investment in Capital Assets	23,959,481	24,349,277	(389,796)	(1.60%)
Unrestricted	1,668,441	910,765	757,676	83.19%
Total Net Position	\$ 25,627,922	\$ 25,260,042	\$ 367,880	1.46%

The 1.15% increase in Total Assets at June 30, 2018 is attributable primarily to an increase in cash balances at year end compared to June 30, 2017. During fiscal year 2018, student tuition and fees exceeded the budgeted projection by 31% and operating expenses were 7% below budget. Fiscal year 2018 was the first full year of operations in the Allied Health and Trades Building that was not covered by the construction warranty. The facilities manager was uncertain as to what type of repairs and servicing expenses would be incurred since the College had no previous experience owning a building. Student headcount and revenues continued to increase but the growth trend was slowing and it was too early to determine if the growth experienced with the opening of the new Allied Health and Trades Building had reached its peak and would be

SOUTHWEST TECHNICAL COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018 (Unaudited)

leveling off or if the College's student count and membership hours would continue to grow. This conservative approach allowed the College to save funds which will be used towards a remodel and relocation project for the automotive and CDL programs. This project commenced in July 2018.

The increase in cash was partially offset by a decrease in receivables, prepaid expenses and bookstore inventory. At June 30, 2017, the College had a \$10,000 donation receivable and a \$12,973 receivable from Circle Four Farms that did not exist at June 30, 2018. Bookstore inventory decreased \$18,940, or 38%, as the College prepared to transition to electronic books. Many of the programs were implementing the use of a program by Cengage Publishing titled "Cengage Unlimited." This subscription allows students to access over 20,000 eBooks and other learning materials for a cost much lower than what they were spending on hard copy books. This program also eliminates the need to keep large numbers of books in inventory and eliminates the expenses incurred as a result of unsold obsolete books.

Significant Capital Asset additions in fiscal year 2018 include: a walkway replacement at the Business and Technology Building, installation of utility metering at both buildings, the purchase of a used semi-tractor and trailer as well as the retrofit of a driving simulator and various pieces of welding equipment. Other purchases include replacement of obsolete computer equipment, office furniture and facilities equipment. Total additions of \$645,800 were offset by depreciation expense of \$1,089,970.

Current Liabilities at June 30, 2018 decreased 2.62% when compared to June 30, 2017. This decrease included offsetting increases and decreases as discussed below:

- Accounts Payable to sponsors included unused funds on account for students who have Pell funding and students sponsored by other agencies such as the Department of Workforce Services, Vocational Rehabilitation Services, and Deseret Industries. This balance decreased \$51,120, or 25%. During fiscal year 2018, the College changed its financial aid process to do periodic evaluations of students' Pell status. The Pell awards were compared to the cost of the student's program and the excess Pell funds earned by the student were disbursed to students for living expenses. This new process contributed to more frequent disbursements to students and a lower balance in accounts payable at year end.
- Accrued Compensated Absences increased \$15,985, or 32.9%, when comparing fiscal year 2018 to fiscal year 2017. The number of vacation hours carried at year end increased by 477 hours, or 28%. Some of the increase came from new employees that had no carryover previously, including: VP of Academics and Accreditation, Distance Ed. and Curriculum Development Specialist, and a new Marketing and Recruiting Representative. Also contributing to the increase were salary increases and employees reaching their maximum carryover limit.

SOUTHWEST TECHNICAL COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018 (Unaudited)

- The \$3,359 or 59% increase in Unearned Revenue is attributable primarily to an emphasis on crossover student counseling during the last quarter of fiscal year 2018. In an effort to improve student retention rates, Student Services attempted to meet with every student that would not have completed his/her program by year end to help them get enrolled for fiscal year 2019. As these enrollments took place, fiscal year 2019 fees and tuition were collected before they were earned.

Noncurrent Liabilities decreased by 24.95% when comparing June 30, 2018 to June 30, 2017. This consisted primarily of a 23.14% decrease in the College portion of the Net Pension Liability for the Utah Retirement System (URS) underfunded pension plan. Also contributing to this decrease was a 42% decrease in the long-term balance of a Capital Lease payable to the Kane County School District which will be paid in full in fiscal year 2021.

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, 2018 and 2017:

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30, 2018 Amount	Year Ended June 30, 2017 Amount	Amount of Change	Percent Change
Operating Revenues	\$ 978,021	\$ 758,950	\$ 219,071	28.87%
Operating Expenses	(7,085,106)	(6,763,803)	(321,303)	4.75%
Operating Loss	(6,107,085)	(6,004,853)	(102,232)	1.70%
Nonoperating Revenues	6,013,000	5,833,592	179,408	3.08%
Other Revenues	461,965	793,107	(331,142)	(41.75%)
Increase in Net Position	367,880	621,846	(253,966)	(40.84%)
Net Position – Beginning of Year	25,260,042	24,638,196	621,846	2.52%
Net Position – End of Year	\$ 25,627,922	\$ 25,260,042	\$ 367,880	1.46%

The College experienced a net operating loss of \$6,107,085 during fiscal year 2018. The College is a State institution and receives a large portion of its revenues from State appropriations and grants. These appropriations and grants 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.

SOUTHWEST TECHNICAL COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018 (Unaudited)

Revenues. The following schedule presents a summary of College revenues for the fiscal years ended June 30, 2018 and 2017:

	Year Ended June 30, 2018 Amount	Percent of Total Revenue	Year Ended June 30, 2017 Amount	Amount of Change	Percent Change
Operating Revenues					
Student Tuition and Fees	\$ 526,893	7.07%	\$ 406,437	\$ 120,456	29.64%
Custom Fit Training Revenue	220,669	2.96%	178,398	42,271	23.69%
Other Operating Revenues	230,459	3.09%	174,115	56,344	32.36%
Total Operating Revenues	978,021	13.12%	758,950	219,071	28.87%
Nonoperating Revenues					
State Appropriations	5,046,700	67.71%	4,756,800	289,900	6.09%
Federal Grants and Contracts	406,443	5.45%	408,142	(1,699)	(.42%)
Donations	55,519	.74%	22,214	33,305	149.93%
State and Local Grants and Contracts	443,983	5.96%	621,530	(177,547)	(28.57%)
Investment Income	60,355	.81%	24,906	35,449	142.33%
Total Nonoperating Revenues	6,013,000	80.68%	5,833,592	179,408	3.08%
Other Revenues					
Capital Appropriations	301,350	4.04%	745,984	(444,634)	(59.60%)
Capital Gifts	133,884	1.80%	40,706	93,178	228.90%
Sale of Capital Assets	26,731	.36%	6,417	20,314	316.57%
Total Other Revenues	461,965	6.20%	793,107	(331,142)	(41.75%)
Total Revenues	\$ 7,452,986	100.00%	\$ 7,385,649	\$ 67,337	.91%

Operating Revenues. Operating Revenues include fees, tuition, bookstore sales and culinary sales. Student Tuition and Fees increased 29.64% as a result of an increase in student membership hours. Total headcount and membership hours were 2,324 and 285,570, respectively, in fiscal year 2018 compared to 2,395 and 258,563, respectively, in fiscal year 2017. Adult headcount decreased by 112 students but the corresponding number of membership hours increased by 20,458 indicating that the students were staying longer and completing longer programs. Some of the most significant increases were experienced in Business and Digital Media, Automotive, Computer Science, Apprenticeships, Industrial Maintenance and Welding.

Custom Fit training revenue is generated as the State Custom Fit appropriation is spent on training for local employers. The College generally covers 40% of the cost of Custom Fit training and the employer covers the remaining 60%. The State Custom Fit appropriation increased from \$275,000 in fiscal year 2017 to \$345,000 in fiscal year 2018. With such an increase in State funding, it took some time to ramp up and educate employers about the training opportunities. In fiscal year 2018, with the \$345,000 appropriation, the Custom Fit Program was able to provide more training which, in turn, generated more income from the employers.

SOUTHWEST TECHNICAL COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018 (Unaudited)

Other Operating Revenues includes bookstore sales of \$179,672 and Culinary Sales of \$50,787 in fiscal year 2018 compared to \$140,104 and \$34,011, respectively, in the prior year. The increase in bookstore sales is attributed to an increase in membership hours and book prices. In fiscal year 2017, the Culinary Program opened the Southwest Café which prepares and serves upscale restaurant cuisine three days a week. It also caters luncheons for the Rotary and Lions Club meetings as well as other occasional events held at the College. During fiscal year 2018, the Southwest Café became more well-known and community traffic increased as well as more opportunities for catering community events held at the College.

The tuition and fees allowances of \$233,387 and \$270,028 for fiscal years 2018 and 2017, respectively, represent tuition and fees paid by federal financial aid, federal and state grants, scholarships, fee waivers, and the employer services Custom Fit program. The decrease is attributed primarily to an increase in the amount of Pell funds disbursed to students for living expenses. Pell grants applied to fees and tuition is included in the allowance; however, Pell grant funds disbursed to students is included in scholarship expense. The amount of Pell grants awarded in fiscal year 2018 remained approximately the same as in fiscal year 2017 but 50% of the amount awarded in fiscal year 2018 was disbursed to students compared to only 26% in the prior year. There are many factors that contribute to the amount disbursed to students including the amount of the award they qualified for, the length of time the student stays at the college, the amount of the award earned through attendance, the cost of their program and other sources of funding. When a student has a sponsor or scholarship, the Pell grant generally becomes secondary funding and more of it is available for the student's living expenses.

Nonoperating revenues. Nonoperating Revenues increased by \$179,408, or 3.08%, in fiscal year 2018 as a result of several offsetting factors, the most significant of which was a \$289,900 increase in the College's State appropriation. This increase included funds for new equipment, a Practical Nursing Faculty, and a Distance Ed. Specialist, and an increase in hours for a Computer Science Teaching Assistant.

Other notable changes in Nonoperating Revenues include the following:

- In fiscal year 2015 the SWTC Foundation (Foundation) contracted with an independent fundraiser to solicit funds for the purpose of purchasing furniture and equipment for the College's new Allied Health and Trades Building that was completed in December 2015. Since the completion of the new building, the Foundation has changed its focus to raising funds for scholarships and specific department needs. In fiscal year 2018, \$155,519 in donations was received including \$100,000 received from the Sorenson Foundation to be used towards a remodel of the Business and Trades Building and the remainder was received from various donors for scholarship awards. The \$100,000 donation is included in Other Revenues as a Capital Gift.
- State and Local Grants and Contracts decreased \$177,547, or 28.57%, when comparing fiscal year 2018 to fiscal year 2017. This decrease is attributable primarily to the

SOUTHWEST TECHNICAL COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018 (Unaudited)

completion of the 2017 UCAP grant and \$78,000 in equipment funds that were included in the fiscal year 2018 State appropriation when in prior years it was included in flow-through funds from the Utah System of Technical Colleges office.

- 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.

Other Revenues. Other Revenues in fiscal year 2018 included capital appropriations of \$301,350 for building improvements at the Business and Technology Building; donations of equipment with an acquisition value of \$33,884 for the welding, culinary, and health professions programs; a \$100,000 capital donation as discussed previously and a net gain of \$26,731 from the disposal of assets no longer used by the College, including a plow truck, semi-tractor, and boom lift.

Expenses. The following schedule presents a summary of College expenses for the fiscal years ended June 30, 2018 and 2017:

	Year Ended June 30, 2018 Amount	Percent of Total Expense	Year Ended June 30, 2017 Amount	Amount of Change	Percent Change
Operating Expenses					
Salaries and Wages	\$ 2,390,658	33.74%	\$ 2,291,969	\$ 98,689	4.31%
Employee Benefits	624,331	8.81%	616,767	7,564	1.23%
Actuarial Calculated Pension Expense	421,769	5.95%	458,711	(36,942)	(8.05%)
Depreciation	1,089,970	15.38%	1,010,328	79,642	7.88%
Other Operating Expenses	2,558,378	36.11%	2,386,028	172,350	7.22%
Total Operating Expenses	\$ 7,085,106	100.00%	\$ 6,763,803	\$ 321,303	4.75%

Salaries and Wages were 33.74% of total operating costs in 2018 and increased \$98,689, or 4.31%, over the prior year, and Employee Benefits increased \$7,564, or 1.23%. Fiscal year 2018 personnel changes that contributed to the increase in Salaries and Wages and Employee Benefits were the hiring of a Practical Nursing faculty and a Distance Ed. Specialist.

Actuarial calculated pension expense was a non-cash transaction that was recorded as required by GASB 68 and GASB 71. See Note 8 for more information.

Depreciation increased \$79,642, or 7.88%, in fiscal year 2018 as a result of a full year of depreciation on \$1,164,024 of Capital asset additions in fiscal year 2017 and \$645,800 of additions in 2018. Capital assets are depreciated using the straight line method over the estimated useful lives of the asset as detailed in Note 1 to the Financial Statements.

Other Operating Expenses increased \$172,350, or 7.22%, in fiscal year 2018 and was 36.11% of operating expenses compared to 35.28% in fiscal year 2017. The increase is attributable to various

SOUTHWEST TECHNICAL COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018 (Unaudited)

fluctuations. Notable changes in Other Operating Expenses in fiscal year 2018 included the following:

- Building preventative and corrective maintenance increased \$142,721 during fiscal year 2018. This increase is a result of fiscal year 2018 being the first year that the College was fully responsible for maintenance on the Allied Health and Trades Building. The new construction warranty on that building ended in March of 2017. In fiscal year 2018 the College contracted with an outside service to provide ongoing mechanical maintenance on a quarterly basis for both the Allied Health and Trades Building and the Business and Technology Building. Another contributing factor was the need to do significant maintenance on the Business and Technology Building. Prior to July 2015, the building was owned and maintained by the Iron County School District. After the College took ownership, there were a number of improvement and maintenance projects that needed to be done, some of which were safety issues. The College was able to use funds that had been previously used for lease payments to do the projects. Fiscal year 2018 projects at the Allied Health and Trades Building included new fencing and concrete for the natural gas meter, removing the willows to the east of the building, repairing/replacing some landscaping, installing an air conditioning unit for IT equipment, and connecting the doors and other equipment to the generator.
- Professional Truck Driving tractor maintenance and repairs increased \$21,575 as a result of the aging fleet. In fiscal year 2017, there was a significant increase in professional truck driving students and as the tractors were used more, there were multiple maintenance issues that needed to be resolved. Throughout fiscal year 2018, the College completed the maintenance in between classes while the tractors were not being used.
- A 30% increase in non-capitalized fixtures and equipment is attributable primarily to a donation of kitchen small wares from Southern Utah University to the culinary program.
- Travel in fiscal year 2018 increased \$23,412, or 59%, compared to fiscal year 2017. This increase is attributable to a policy implemented by the Utah System of Technical Colleges in fiscal year 2018 to pay the campus presidents a travel allowance of \$600 per month plus mileage at the federal per-diem rate rather than supplying them with a college vehicle.
- Scholarship Expense increased \$38,305, or 17%, when compared to fiscal year 2017. As discussed previously, the disbursement of Pell funds to students was 50% of the total amount awarded in fiscal year 2018 compared to only 26% in the prior year.

Economic Overview and Outlook

Utah's economy continues to be one of the strongest in the country. As of June 2018, the state's year-over-year employment growth was tied for the highest in the nation at 3.0%. Utah added 47,900 jobs in fiscal year 2018 with the trade, transportation and utilities; professional and

SOUTHWEST TECHNICAL COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018 (Unaudited)

business services; and education and health services sectors experiencing the largest gains. Utah's unemployment rate was 3.0% compared to the nationwide unemployment rate of 3.9%. As existing businesses expand and new businesses move to Utah, it becomes increasingly more important to educate the employees that will be needed with the appropriate technical skills. With input from the College occupational advisory committees, the College continually channels efforts towards growth and diversification of program offerings to fit the needs of students and employers and looks forward to being an integral part of the future workforce development of its four county 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 Technical College, 757 West 800 South, Cedar City, UT 84720.

SOUTHWEST TECHNICAL COLLEGE

STATEMENT OF NET POSITION

JUNE 30, 2018

ASSETS

Current Assets

Cash and Cash Equivalents (Notes 1 and 2)	\$ 3,229,151
Accounts Receivable	
Due from Primary Government	41,279
Other (Note 3)	13,375
Prepaid Expenses	63,940
Inventories (Note 1)	30,836
Total Current Assets	3,378,581

Noncurrent Assets (Notes 1 and 4)

Land	2,403,442
Buildings	20,330,839
Improvements	1,164,323
Equipment	4,602,482
Less Accumulated Depreciation	(4,370,832)
Total Noncurrent Assets	24,130,254
Total Assets	27,508,835

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Relating to Pensions	860,673
Total Deferred Outflows of Resources	860,673

LIABILITIES

Current Liabilities

Accounts Payable	
Due to Primary Government	90,689
Other (Note 3)	340,047
Accrued Payroll Expenses	216,985
Unearned Revenue	9,003
Accrued Compensated Absences	64,625
Capital Leases Payable (Notes 5 and 6)	71,848
Total Current Liabilities	793,197

Noncurrent Liabilities

Capital Leases Payable (Notes 5 and 6)	98,925
Net Pension Liability (Note 8)	1,243,156
Total Noncurrent Liabilities	1,342,081
Total Liabilities	2,135,278

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Relating to Pensions	606,308
Total Deferred Inflows of Resources	606,308

NET POSITION

Net Investment in Capital Assets	23,959,481
Unrestricted	1,668,441
Total Net Position	\$ 25,627,922

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

SOUTHWEST TECHNICAL COLLEGE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES (Note 1)

Student Tuition and Fees (Net of Scholarship Allowance of \$233,387)	\$ 526,893
Custom Fit Training Revenue	220,669
Other Operating Revenues	230,459
Total Operating Revenues	<u>978,021</u>

OPERATING EXPENSES (Note 1)

Salaries and Wages	2,390,658
Employee Benefits	624,331
Actuarial Calculated Pension Expense (Note 8)	421,769
Purchased Services	635,279
Other Operating Expenses	1,656,047
Scholarship Expense	267,052
Depreciation	1,089,970
Total Operating Expenses	<u>7,085,106</u>
Operating Loss	(6,107,085)

NONOPERATING REVENUES

State Appropriations	5,046,700
Federal Grants and Contracts	406,443
Donations	55,519
State and Local Grants and Contracts	443,983
Investment Income	60,355
Total Nonoperating Revenues	<u>6,013,000</u>

OTHER REVENUES

Capital Appropriations	301,350
Capital Gifts/Grants	133,884
Gain on sale of Capital Assets	26,731
Total Other Revenues	<u>461,965</u>

Increase in Net Position 367,880

NET POSITION

Net Position – Beginning of Year	<u>25,260,042</u>
Net Position – End of Year	<u><u>\$ 25,627,922</u></u>

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

SOUTHWEST TECHNICAL COLLEGE

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Tuition and Fees	\$ 533,787
Receipts from Other Revenue Sources	230,459
Receipts from Custom Fit Training Revenue	220,669
Payments for Salaries and Benefits	(3,378,213)
Payments to Students and Suppliers	(2,553,450)
Net Cash Used by Operating Activities	<u>(4,946,748)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	5,046,700
Nonoperating Grants and Contracts	871,356
Donations	65,519
Net Cash Provided by Noncapital Financing Activities	<u>5,983,575</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(339,854)
Capital Gifts	100,000
Cash receipts from sale of assets	42,651
Payments for Capital Leases	(70,295)
Net Cash Used by Capital and Related Financing Activities	<u>(267,498)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of Interest on Investments	<u>60,355</u>
Net Cash Provided by Investing Activities	<u>60,355</u>
Net Increase in Cash and Cash Equivalents	829,684
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>2,399,467</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u><u>\$ 3,229,151</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (6,107,085)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	1,089,970
Donations for equipment expensed	29,292
Difference between Actuarial Calculated Pension Expense and Actual Contributions	39,087
Changes in Assets and Liabilities	
Accounts Receivable	3,535
Inventories	18,939
Prepaid Expenses	2,406
Accounts Payable	(45,709)
Accrued Payroll and Benefits	19,458
Unearned Revenue	3,359
Net Cash Used by Operating Activities	<u><u>\$ (4,946,748)</u></u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Donated Equipment	4,596
Completed construction project transferred from State of Utah	301,349
Total noncash investing, capital and financing activities	<u><u>\$ 305,945</u></u>

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

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Southwest Technical 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 an independent college within the Utah System of Technical Colleges. The College is considered a component unit of the State of Utah and is included in the State's *Comprehensive Annual Financial Report*. The College 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 technical education to secondary and adult students. Effective September 1, 2001, the Legislature created the Utah College of Applied Technology (UCAT) which was composed of eight regional applied technology colleges. The College was one of these regional technology colleges and was subject to the authority of the Utah System of Higher Education under the control of the UCAT Board of Trustees. The College's local Board of Directors was charged with direct governance.

Effective July 1, 2017, the Legislature restructured UCAT to become the Utah System of Technical Colleges and granted legal separation of all eight established colleges. The College's name was changed to Southwest Technical College with authority and direct governance under the College's Board of Directors. The College is now considered an independent technical college and a component unit of the State of Utah.

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 federal, state and local agencies.

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

In October 2012, SWATC Foundation, a legally separate, non-profit corporation, was incorporated under Utah law to support the growth and development of the College by generating financial and political resources that will facilitate the growth and development of the College and its programs and students. SWATC Foundation was organized exclusively for charitable and educational purposes under Section 501(c)(3) of the Internal Revenue

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Code. SWATC Foundation is a blended component unit of the College. 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 College. The College appoints three positions on the SWATC Foundation 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 in accordance with GASB No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Inventory

Inventory consists of textbooks and materials sold to students and is valued at the lower of cost or market using the first-in, first-out ("FIFO") method.

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Capital Assets

Capital assets include land, 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 acquisition value at the date of donation and are classified as Capital Gifts in Other Revenues.

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 and/or administration.

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems (Systems) Pension Plan and additions to/deductions from the Systems' fiduciary net position are now determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are now recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net positions that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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 (the Act) that relate to the deposit and investment of public funds.

The College follows the requirements of the 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 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 and SWATC Foundation do not have a formal deposit policy for custodial credit risk. The bank balances of the College and Foundation are insured by the Federal Deposit Insurance Corporation standard amount of \$250,000. As of June 30, 2018, \$3,492 of the SWATC Foundation's bank balance was uninsured and uncollateralized.

Investments

The 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 nonnegotiable deposits of qualified or permitted 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), and Federal National Mortgage Association (Fannie 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 Act; and the Utah State Public Treasurers' Investment Fund (PTIF).

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

The Utah State Treasurer's Office operates the PTIF. The PTIF is available for investment of funds administered by any Utah public treasurer and is not registered with the Securities Exchange Commission (SEC) as an investment company. The PTIF is authorized and regulated by the 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.

Fair Value Investments

The College measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

The value of the College's investment in the PTIF is calculated by applying the June 30, 2018 fair value factor, as calculated by the Utah State Treasurer, to the College's June 30, 2018 balance in the PTIF. On June 30, 2018, the College had investments of \$2,792,154 with the PTIF. The investments were valued using Level 2 measurements. 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 Act. Section 51-7-11 of the 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. The Act further limits the remaining term to maturity on all investments in obligations of the United States Treasury; obligations issued by U.S. Government-sponsored enterprises; and bonds, notes, and other evidence of indebtedness of political subdivisions of the State to 10 years. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 3 years. The Foundation does not have a formal policy for interest rate risk.

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

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

the Act, as previously discussed. The College's investments in PTIF at June 30, 2018 were all unrated. The Foundation does not have a formal policy for credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Entity's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio. The Foundation does not have a formal policy for concentration of credit risk.

NOTE 3. ACCOUNTS RECEIVABLE AND PAYABLE

Accounts receivable at June 30, 2018 consist of unpaid student tuition and fee charges of \$8,763, which is net of an allowance for doubtful accounts of \$22,361; receivables from primary government of \$41,279; and \$4,612 of miscellaneous receivables. Accounts payable at June 30, 2018 consist of \$111,765 for Pell Grant funds applied to student accounts (disbursed to students or returned to the Department of Education), \$90,689 to primary government, and other miscellaneous payments to vendors for supplies and services totaling \$228,282.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 2,403,442	\$ -	\$ -	\$ 2,403,442
Buildings	20,330,839	-	-	20,330,839
Improvements	846,730	317,593	-	1,164,323
Equipment	4,341,655	328,207	(67,380)	4,602,482
Total	27,922,666	645,800	(67,380)	28,501,086
Less Accumulated Depreciation:				
Buildings, Improvements, and Equipment	(3,332,321)	(1,089,970)	51,459	(4,370,832)
Net Capital Assets	<u>\$ 24,590,345</u>	<u>\$ (444,170)</u>	<u>\$ (15,921)</u>	<u>\$ 24,130,254</u>

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

NOTE 5. CAPITAL LEASE OBLIGATIONS

The College has incurred capital lease obligations for rental of an instructional facility in Kanab, Utah. The cost of the Kanab Campus Building held under capital lease and related depreciation totaled \$838,257 and \$230,519, respectively, as of June 30, 2018. The future minimum lease payments for the capital lease as of June 30, 2018, are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 71,848	\$ 3,152	\$ 75,000
2020	73,434	1,566	75,000
2021	25,491	178	25,669
Total Capital Leases	\$ 170,773	\$ 4,896	\$ 175,669

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, 2018.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital Leases	\$ 241,068	\$ -	\$ (70,295)	\$ 170,773	\$ 71,848
Net Pension Liability	1,617,383	-	(374,227)	1,243,156	-
Total Long-term Liabilities	\$ 1,858,451	\$ -	\$ (444,522)	\$ 1,413,929	\$ 71,848

NOTE 7. OPERATING LEASES

In May 2014, the College renewed a five-year lease for rental of instructional facilities. Terms of the agreement include \$300,000 in annual payments for the first year and annual increases of 1% in each of the four subsequent years. 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 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, 2018, operating lease expenses totaled \$307,563. The future minimum rental payments for operating leases as of June 30, 2018 are \$286,166. The lease will terminate in May 2019.

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

NOTE 8. PENSION PLANS

Plan Description

Eligible employees of the College are provided with pensions through the Utah Retirement Systems (Systems). The Systems comprise several pension trust funds, the following in which employees at the College participate:

- Public Employees Noncontributory Retirement System (Noncontributory System) is a multiple employer, cost sharing, public employee retirement system.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System) is a multiple employer, cost-sharing, public employee retirement system.

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011 who have no previous service credit with any of the Systems are members of the Tier 2 Public Employees System.

The Systems are established and governed by the respective sections of Title 49 of the *Utah Code*. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the Utah State Retirement Board (Board), whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds and a component unit of the State of Utah. Title 49 of the *Utah Code* grants the authority to establish and amend the benefit terms.

The Systems issue a publicly available financial report that can be obtained by writing Utah Retirement Systems, 560 East 200 South, Salt Lake City, UT 84102, or by visiting the website www.urs.org.

The Systems provide retirement, disability, and death benefits. Retirement benefits are as follows:

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

System	Final Average Salary	Years of Service Required and/or Age Eligible for Benefit	Benefit Percent per Year of Service	COLA**
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Tier 2 Public Employees System	Highest 5 years	35 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%

* with actuarial reductions

** All post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the Systems' Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable), is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates as of June 30, 2018 are as follows:

	<u>Paid by College for Employee</u>	<u>College Contribution Rates</u>
Noncontributory System	N/A	22.19%
Public Employees System Tier 2	N/A	10.02%

Tier 2 rates include a statutorily required contribution to finance the unfunded actuarial accrued liability of the Tier 1 plans.

For fiscal year ended June 30, 2018 the employer and employee contributions to the Systems were as follows:

	<u>College Contributions</u>	<u>Employee Contributions</u>
Noncontributory System	\$ 263,135	N/A
Tier 2 Public Employees System	119,161	-
Total Contributions	<u>\$ 382,296</u>	<u>\$ -</u>

Contributions reported are the Systems' Board-approved required contributions by system. Contributions in the Tier 2 systems are used to finance the unfunded liabilities in the Tier 1 systems.

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

At June 30, 2018, the College reported a net pension asset of \$0 and a net pension liability of \$1,243,156.

	Net Pension Asset	Net Pension Liability	Proportionate Share Dec. 31, 2017	Proportionate Share Dec. 31, 2016	Change
Noncontributory System	\$ -	\$ 1,238,238	0.0506362%	0.0497084%	0.0009278%
Tier 2 Public Employees System	-	4,918	0.0557836%	0.0571463%	-0.0013627%
Total Net Pension Liability	<u>\$ -</u>	<u>\$ 1,243,156</u>			

The net pension asset and liability were measured as of December 31, 2017. The total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2017 and rolled forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the Systems during the plan year.

For the year ended June 30, 2018, the College recognized pension expense of \$421,769. At June 30, 2018 the College reported deferred outflows of resources and deferred inflows of resources relating to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 184	\$ 76,332
Changes in assumptions	319,265	9,909
Net difference between projected and actual earnings on pension plan investments	204,666	520,067
Changes in proportion and differences between contributions and proportionate share of contributions	142,347	-
Contributions subsequent to the measurement date	194,211	-
Total	<u>\$ 860,673</u>	<u>\$ 606,308</u>

Of the amount reported as deferred outflows of resources related to pensions, \$194,211 resulted from contributions made by the College prior to its fiscal year end but subsequent to the measurement date of December 31, 2017. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

<u>Year Ending December 31,</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2018	\$ 106,765
2019	\$ 122,484
2020	\$ (60,268)
2021	\$ (112,965)
2022	\$ (1,085)
Thereafter	\$ 5,223

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	3.25 – 9.75 percent, average, including inflation
Investment Rate of Return	6.95 percent, net of pension plan investment expense, including inflation

Mortality rates were developed from actual experience and mortality tables, based on gender, occupation, and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2017, valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class and is applied consistently to each defined benefit pension plan. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Expected Return Arithmetic Basis			
Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity Securities	40%	6.15%	2.46%
Debt Securities	20%	0.40%	0.08%
Real Assets	15%	5.75%	0.86%
Private Equity	9%	9.95%	0.89%
Absolute Return	16%	2.85%	0.46%
Cash and Cash Equivalents	0%	0.00%	0.00%
Totals	100%		4.75%
	Inflation		2.50%
	Expected Arithmetic Nominal Return		7.25%

The 6.95% assumed investment rate of return is comprised of an inflation rate of 2.50% and a real return of 4.45% that is net of investment expense.

The discount rate used to measure the total pension liability was 6.95%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the Systems' Board. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate was reduced to 6.95% from 7.20% from the prior measurement period.

The following presents the proportionate share of the net pension (asset)/liability calculated using the discount rate of 6.95% as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (5.95%) or one-percentage-point higher (7.95%) than the current rate:

Proportionate Share of Net Pension (Asset) / Liability			
	1% Decrease (5.95%)	Discount Rate (6.95%)	1% Increase (7.95%)
Noncontributory System	\$ 2,703,598	\$ 1,238,238	\$ 13,492
Tier 2 Public Employees System	57,910	4,918	(35,946)
Total	\$ 2,761,508	\$ 1,243,156	\$ (22,454)

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Detailed information about the pension plans' fiduciary net position is available in the Systems' separately issued financial report.

NOTE 9. DEFINED CONTRIBUTION SAVINGS PLANS

The Defined Contribution Savings Plans are administered by the Systems' Board and are generally supplemental plans to the basic retirement benefits of the Retirement Systems, but may also be used as a primary retirement plan. These plans are voluntary tax-advantaged retirement savings programs authorized under sections 401(k), and 408 of the Internal Revenue code. Detailed information regarding plan provisions is available in the Systems' separately issued financial report.

The College participates in the following Defined Contribution Savings Plans within the Systems:

- 401(k) Plan
- Roth IRA Plan

The College contributes 1.5% (Noncontributory System) and 1.58% (Tier 2 Public Employees System) of participating employees' annual salaries to a 401(k) Plan.

For employees participating in the Tier 2 Public Employees defined contribution plan (Tier 2 DC), the College is required to contribute 20.02% of the employee's salary, of which 10% is paid into a 401(k)/457 plan, while the remainder is contributed into the Tier 1 Contributory Public Employee System, as required by law. Employee and employer contributions to the Systems' Defined Contribution Savings Plans for fiscal year ended June 30, 2018 were as follows:

401(k) Plan

Employer Contributions	\$ 130,550
Employee Contributions	52,287

Roth IRA Plan

Employer Contributions	N/A
Employee Contributions	9,957

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

NOTE 10. COMPENSATED ABSENCES

The College accrues and reports annual vacation leave in the year earned. Eligible salaried employees earn vacation leave as follows:

Years of Continuous Employment	Days Accrued Per Year	Maximum Carryover Days
0-5	12	10
6-10	15	15
11-15	18	20
16+	21	25
Executive Staff	25	30

Maximum carryover is reviewed and adjusted each year at September 30th. All accumulated days above the maximum carryover are lost if not used prior to that time. Upon termination, the cash value of accumulated unused annual leave, calculated by multiplying the employee's current hourly rate by the number of accrued hours of annual leave, is paid directly to the employee subject to the IRS rules and regulations as taxable compensation.

NOTE 11. 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 through the Utah School Boards' Risk Management Mutual Insurance Association.

NOTE 12. FOUNDATION

SWATC Foundation was incorporated on October 31, 2012 under laws of the State of Utah and is recognized as a "Section 501(c)(3)" corporation by the Internal Revenue Service. The Foundation exists to further the charitable and educational purposes of the College. During the fiscal year ended June 30, 2018, SWATC Foundation received \$153,000 in cash donations that will be used by the College to provide educational scholarships and funds for a remodel project at the Business and Trades Building.

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

The following schedules present condensed financial statements of SWATC Foundation for the fiscal year ended June 30, 2018:

SWATC Foundation

Condensed Statement of Net Position June 30, 2018

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 253,492
Accounts Receivable	<u>-</u>
Total Assets	<u>253,492</u>

LIABILITIES

Current Liabilities

Payable to College	<u>211,339</u>
Total Liabilities	<u>211,339</u>

NET POSITION

Unrestricted	<u>42,153</u>
Total Net Position	<u>\$ 42,153</u>

SWATC Foundation

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended June 30, 2018

OPERATING REVENUES

Donations	<u>\$ 156,000</u>
Total Operating Revenues	<u>156,000</u>

OPERATING EXPENSES

Scholarships and Grants to Stech	334,852
Other Operating Expenses	<u>52,450</u>
Total Operating Expenses	<u>387,302</u>
Operating Loss	<u>(231,302)</u>

NET POSITION

Net Position – Beginning of Year	<u>273,455</u>
Net Position – End of Year	<u>\$ 42,153</u>

SWTC Foundation

Condensed Statement of Cash Flows For the Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Payments for Supplies and Services	\$ (46)
Grants and Scholarships Disbursed	(302,312)
Receipts from Donations	<u>166,000</u>
Net Cash Provided by Operating Activities	<u>(136,358)</u>

Increase in Cash and Cash Equivalents (136,358)

CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR 389,850

CASH AND CASH EQUIVALENTS – END OF YEAR \$ 253,492

SOUTHWEST TECHNICAL COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

Schedule of Southwest Technical College's Proportionate Share of the Net Pension Liability Noncontributory and Tier 2 Public Employees Systems of the Utah Retirement Systems

	December 31,			
	2017	2016	2015	2014
<i>Noncontributory System</i>				
Proportion of Net Pension Liability (Asset)	0.0506362%	0.0497084%	0.0437018%	0.0387199%
Proportionate Share of Net Pension Liability (Asset)	\$ 1,238,238	\$ 1,611,008	\$ 1,372,799	\$ 972,849
Covered Payroll	\$ 1,257,810	\$ 1,255,371	\$ 1,088,821	\$ 970,094
Proportionate Share of Net Pension Liability (Asset) as a Percentage of Covered Payroll	98.44%	128.33%	126.08%	100.30%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	89.20%	84.90%	84.50%	87.20%
<i>Tier 2 Public Employees System</i>				
Proportion of Net Pension Liability (Asset)	0.0557836%	0.0571463%	0.0561137%	0.0739018%
Proportionate Share of Net Pension Liability (Asset)	\$ 4,918	\$ 6,375	\$ (122)	\$ (2,240)
Covered Payroll	\$ 546,335	\$ 468,647	\$ 362,474	\$ 362,393
Proportionate Share of Net Pension Liability (Asset) as a Percentage of Covered Payroll	0.90%	1.36%	-0.03%	-0.60%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	97.40%	95.10%	100.20%	103.50%

* The College implemented GASB Statement No. 68 and 71 in fiscal year 2015. Information on the College's portion of the plans' net pension liabilities (assets) is not available for periods prior to fiscal year 2015.

SOUTHWEST TECHNICAL COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

Schedule of Southwest Technical College's Pension Contributions Noncontributory and Tier 2 Public Employees Systems of the Utah Retirement Systems Last 10 Fiscal Years Ending June 30 ¹

Noncontributory System

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarial Determined Contributions	\$ 263,135	\$ 280,240	\$ 261,814	\$ 215,025	\$ 198,583	\$ 209,884	\$ 177,919	\$ 151,002	\$ 128,534	\$ 131,831
Contributions in relation to the contractually required contribution	(263,135)	(280,240)	(261,814)	(215,025)	(198,583)	(209,884)	(177,919)	(151,002)	(128,534)	(131,831)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,231,923	\$ 1,279,730	\$ 1,190,226	\$ 997,298	\$ 1,005,932	\$ 1,105,673	\$ 1,094,799	\$ 848,752	\$ 903,897	\$ 927,083
Contributions as a percentage of covered payroll ²	21.36%	21.90%	22.00%	21.56%	19.74%	18.98%	16.25%	17.79%	14.22%	14.22%

Tier 2 Public Employees System ³

	2018	2017	2016	2015	2014	2013	2012 ⁴
Actuarial Determined Contributions	\$ 106,880	\$ 96,867	\$ 70,459	\$ 67,846	\$ 55,148	\$ 12,401	\$ 3,184
Contributions in relation to the contractually required contribution	(106,880)	(96,867)	(70,459)	(67,846)	(55,148)	(12,401)	(3,184)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 579,611	\$ 531,072	\$ 386,286	\$ 371,352	\$ 329,240	\$ 144,875	\$ 41,951
Contributions as a percentage of covered payroll ²	18.44%	18.24%	18.24%	18.27%	16.75%	8.56%	7.59%

¹ Paragraph 81.b of GASB 68 requires employers to disclose a 10-year history of contributions in the RSI.

² Contributions as a percentage of covered payroll may be different than the board certified rate due to rounding and other administrative issues.

³ Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems.

⁴ Tier 2 systems were created effective July 1, 2011.

SOUTHWEST TECHNICAL COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

Notes to Southwest Technical College's Schedule of Contributions:

Changes in Assumptions

As a result of an experience study conducted as of December 31, 2016, the Board adopted recommended changes to several economic and demographic assumptions that are used in the actuarial valuation. The assumption changes that had the largest impact on the Total Pension Liability (and actuarial accrued liability) include a decrease in the investment return assumption from 7.20% to 6.95%, a reduction in the price inflation assumption from 2.60% to 2.50% (which also resulted in a corresponding decrease in the cost-of-living-adjustment assumption for the funds with a 4.00% annual COLA max), and the adoption of an updated retiree mortality table that is developed using URS's actual retiree mortality experience. There were changes to several other demographic assumptions, but those changes had a minimal impact on the Total Pension Liability (and actuarial accrued liability).



OFFICE OF THE
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
Brennan Wood, Campus President
Southwest Technical 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 Technical College (the College) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 15, 2019.

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 State Auditor
Office of the State Auditor
February 15, 2019