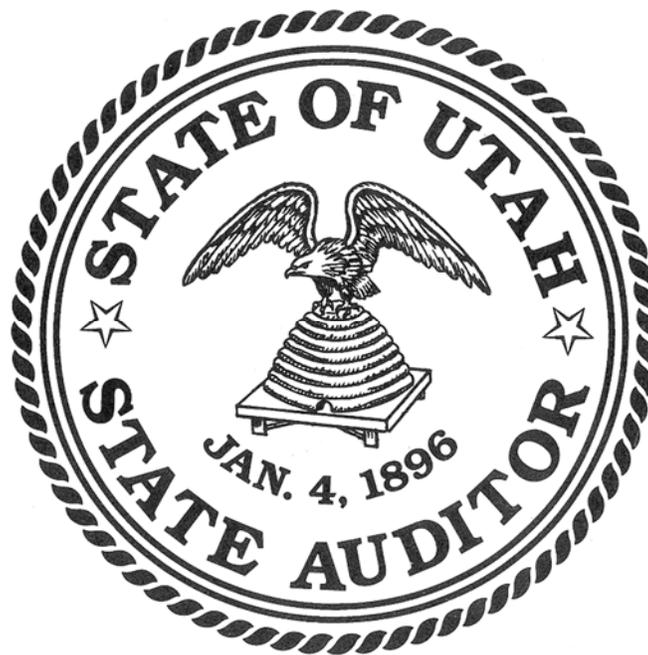


SOUTHWEST APPLIED TECHNOLOGY COLLEGE

**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, 2017

Report No. 17-36



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Jason Allen, CPA, CFE, Senior Audit Manager
Nate Grondel, Audit Senior

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

FOR THE YEAR ENDED JUNE 30, 2017

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OFFICE OF THE
STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Directors, Audit Committee
and
Brennan M. Wood, 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, 2017, 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, 2017, 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 present only the College and do not purport to, and do not, present fairly the financial position of UCAT as of June 30, 2017, 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 11 and the College's Schedule of Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions on pages 31 and 32 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 February 15, 2018 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, 2018

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017 (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 ending June 30, 2017 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 within 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, 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

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017 (Unaudited)

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.

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, 2017 and 2016:

Condensed Statement of Net Position

	June 30, 2017	June 30, 2016	Amount of	Percent
	Amount	Amount	Change	Change
Assets				
Current Assets	\$ 2,604,709	\$ 1,938,861	\$ 665,848	34.34%
Noncurrent Assets				
Net Pension Assets	-	122	(122)	(100.00%)
Capital Assets, Net	24,590,345	24,437,307	153,038	.63%
Total Assets	27,195,054	26,376,290	818,764	3.10%
Deferred Outflows of Resources	867,789	638,435	229,354	35.92%
Liabilities				
Current Liabilities	814,535	624,505	190,030	30.43%
Noncurrent Liabilities	1,788,156	1,613,867	174,289	10.80%
Total Liabilities	2,602,691	2,238,372	364,319	16.28%
Deferred Inflows of Resources	200,110	138,157	61,953	44.84%
Net Position				
Net Investment in Capital Assets	24,349,277	24,127,462	221,815	.92%
Unrestricted	910,765	510,734	400,031	78.32%
Total Net Position	\$ 25,260,042	\$ 24,638,196	\$ 621,846	2.52%

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017 (Unaudited)

The 3.1% increase in Total Assets at June 30, 2017 is attributable primarily to an increase in cash balances at year end compared to June 30, 2016. During fiscal year 2017, student tuition and fees exceeded the budgeted projection by 66% and operating expenses were 5% below budget. Fiscal year 2017 was the first full year of operations in the Allied Health and Trades Building completed in December 2015. Since the College had no previous experience owning a building, management was very cautious about spending. Student headcount and revenues were increasing, but it was too early to determine if the trend would be sustained. 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 scheduled to commence in July 2018.

The increase in cash was offset slightly by a decrease in receivables. At June 30, 2016, the College had receivables for a stem grant reimbursement and a grant from Utah Development Disabilities Council. Both of those programs were completed prior to June 30, 2017. At June 30, 2017, there were no grant receivables.

Capital Asset additions in fiscal year 2017 include: building improvements, furniture replacement, studio equipment, and floor covering for the business and technology building remodel. Other purchases include computer equipment for a new computer science lab, a vehicle to transport construction students to the class job sites, a general purpose vehicle for facilities use, and automotive and welding equipment. Total additions of \$1,164,024 were partially offset by depreciation expense of \$1,010,328.

Current Liabilities at June 30, 2017 increased 30.43% when compared to June 30, 2016. Items affecting this change include the following:

- At June 30, 2017 Accounts Payable included \$49,114 due to Beaver and Garfield School Districts for instruction at their facilities. In the prior year, these were paid prior to year end.
- 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 increased \$54,642 or 51%. During fiscal year 2017, student head count increased by 418 students and membership hours increased 34,753. With an increase of students and hours, Pell funding also increased.
- Accrued Payroll Expenses increased \$45,384 or 26.99% as a result of several new positions filled during fiscal year 2017 which included a new Marketing Director, Computer Science Instructor, Electrical Apprenticeship Instructor, Computer Science Teaching Assistant, Human Resource Specialist, and additional custodial staff.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017 (Unaudited)

Noncurrent Liabilities increased by 10.8% when comparing June 30, 2016 to June 30, 2017. This consisted of a 17.82% increase in the College portion of the Net Pension Liability for the Utah Retirement System (URS) underfunded pension plan. This increase was partially offset by a 29% 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, 2017 and 2016:

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

	Year Ended June 30, 2017 Amount	Year Ended June 30, 2016 Amount	Amount of Change	Percent Change
Operating Revenues	\$ 758,950	\$ 568,175	\$ 190,775	33.58%
Operating Expenses	(6,763,803)	(5,755,558)	(1,008,245)	17.52%
Operating Loss	(6,004,853)	(5,187,383)	(817,470)	15.76%
Nonoperating Revenues	5,833,592	4,885,644	947,948	19.40%
Other Revenues	793,107	20,013,256	(19,220,149)	(96.04%)
Increase in Net Position	621,846	19,711,517	(19,089,671)	(96.85%)
Net Position – Beginning of Year	24,638,196	4,926,679	19,711,517	400.10%
Net Position – End of Year	<u>\$ 25,260,042</u>	<u>\$ 24,638,196</u>	<u>\$ 621,846</u>	2.52%

The College experienced a net operating loss of \$6,004,853 during fiscal year 2017. 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 APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017 (Unaudited)

Revenues. The following schedule presents a summary of College revenues for the fiscal years ended June 30, 2017 and 2016:

	Year Ended June 30, 2017 Amount	Percent of Total Revenue	Year Ended June 30, 2016 Amount	Amount of Change	Percent Change
Operating Revenues					
Student Tuition and Fees	\$ 406,437	5.50%	\$ 306,048	\$ 100,389	32.80%
Custom Fit Training Revenue	178,398	2.42%	155,349	23,049	14.84%
Other Operating Revenues	174,115	2.36%	106,778	67,337	63.06%
Total Operating Revenues	758,950	10.28%	568,175	190,775	33.58%
Nonoperating Revenues					
State Appropriations	4,756,800	64.41%	3,997,600	759,200	18.99%
Federal Grants and Contracts	408,142	5.53%	221,136	187,006	84.57%
Donations	22,214	.30%	134,478	(112,264)	(83.48%)
State and Local Grants and Contracts	621,530	8.42%	521,850	99,680	19.10%
Investment Income	24,906	.34%	10,580	14,326	135.41%
Total Nonoperating Revenues	5,833,592	78.99%	4,885,644	947,948	19.40%
Other Revenues					
Capital Appropriations	745,984	10.10%	19,887,972	(19,141,988)	(96.25%)
Capital Gifts	40,706	.55%	108,771	(68,065)	(62.58%)
Sale of Capital Assets	6,417	.09%	16,513	(10,096)	(61.14%)
Total Other Revenues	793,107	10.74%	20,013,256	(19,220,149)	(96.04%)
Total Revenues	\$ 7,385,649	100.00%	\$ 25,467,075	\$ (18,081,426)	(71.00%)

Operating Revenues include fees, tuition, bookstore sales and culinary sales. As discussed previously, Tuition and Fees increased 32.8% as a result of an increase in students following the opening of the Allied Health and Trades building in January 2016. Total headcount and membership hours were 1,878 and 224,322, respectively in fiscal year 2016 compared to 2,296 and 259,075, respectively in fiscal year 2017. Some of the most significant increases were experienced in Business and Digital Media, Culinary, Apprenticeships, and Professional Truck Driving. In 2016 there were 24 CDL students compared to 53 in 2017. Although the increase of 29 students does not seem significant, this program has some of the highest fees of all courses offered, and the course is completed in only four weeks. An increase of 29 students has a much bigger impact on fees than it would on tuition because the course is short and tuition is based on hours.

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%. In fiscal year 2016 the State Custom Fit appropriation was \$275,000, and it increased to \$345,000 in fiscal year 2017. With an increase in the appropriation, the Custom Fit Program was able to provide more training which, in turn, generated more income from the employers.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017 (Unaudited)

Other Operating Revenues includes bookstore sales of \$140,104 and Culinary Sales of \$34,011 in fiscal year 2017 compared to \$104,670 and \$2,108, respectively in the prior year. The increase in bookstore sales is attributed to an increase in students and book prices. In fiscal year 2017, the Culinary Program opened the Southwest Café which prepares and serves upscale restaurant cuisine three days per week. It also caters luncheons for the Rotary and Lions Club meetings as well as other occasional events held at the College.

The tuition and fees allowances of \$270,028 and \$143,172 for fiscal years 2017 and 2016, 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 increase is attributed to an increase in Pell funds awarded and applied to student fees and tuition and an increase in Custom Fit sponsored students. These increases are partially offset by a decrease in waivers for students that were enrolled in the College's Workplace Foundations program which was discontinued June 30, 2017.

Nonoperating revenues. Nonoperating Revenues increased by \$947,948, or 19.4%, in fiscal year 2017 as a result of several offsetting factors, the most significant of which was a \$759,200 increase in the College's State appropriation. This increase included \$259,500 for a Computer Science instructor, Practical Nursing supplies, and salary and benefits for two FTEs for the Practical Nursing program which is scheduled to begin August 2018. Also included in the \$759,200 increase was a \$71,600 increase for compensation and insurance, \$228,100 for maintenance and operating expenses for the Allied Health and Trades Building, and \$200,000 for a Workplace Foundations program dedicated to students with disabilities.

Other changes in Nonoperating Revenues include the following:

- Federal Grants and Contracts increased \$187,006, or 84.57%. This includes a \$192,776 increase in Pell Grants and a \$5,770 decrease in Perkins funding. The amount of Pell Grants is based on the number of students that apply for Pell Grants and the amount students are awarded based on financial information submitted by the student. Federal Perkins funding is awarded through the State of Utah, based on a number of qualifying factors, to educational facilities that provide a career and technical education program that is of scope and quality to bring about improvement in the quality of career and technical education programs. The amount allocated to the College varies from year to year.
- In fiscal year 2015 the College 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 2017, \$22,214 was raised for student scholarships.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017 (Unaudited)

- State and Local Grants and Contracts increased \$99,680 or 19.1% in fiscal year 2017 compared to fiscal year 2016. Notable changes included the following: a \$54,300 increase in equipment funds that flow through the Utah College of Applied Technology; a \$70,000 increase in the Custom Fit appropriation discussed previously; \$89,184 in UCAP grant funds, offset by a \$81,975 decrease from a Stem grant that concluded in fiscal year 2016; and a \$49,046 decrease relating to the conclusion of the Utah Development Disabilities Council grant for the Workplace Foundations program.
- 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 2017 included capital appropriations of \$745,984 for building improvements at the business and technology building; donations of equipment with an acquisition value of \$40,706 for the welding, automotive and EMT programs; and a net gain of \$6,417 from the disposal of assets no longer used by the College.

Expenses. The following schedule presents a summary of College expenses for the fiscal years ended June 30, 2017 and 2016:

	Year Ended June 30, 2017 Amount	Percent of Total Expense	Year Ended June 30, 2016 Amount	Amount of Change	Percent Change
Operating Expenses					
Salaries and Wages	\$ 2,291,969	33.89%	\$ 2,024,047	\$ 267,922	13.24%
Employee Benefits	616,767	9.12%	563,342	53,425	9.48%
Actuarial Calculated Pension Expense	458,711	6.78%	309,968	148,743	100.00%
Depreciation	1,010,328	14.94%	618,522	391,806	63.35%
Other Operating Expenses	2,386,028	35.28%	2,239,679	146,349	6.53%
Total Operating Expenses	\$ 6,763,803	100.00%	\$ 5,755,558	\$ 1,008,245	17.52%

Salaries and Wages were 33.89% of total operating costs in 2017 and increased \$267,922, or 13.24%, over the prior year, and Employee Benefits increased \$53,425, or 9.48%. Fiscal year 2017 personnel changes that contributed to the increase in Salaries and Wages and Employee Benefits were the hiring of a Practical Nursing Director, turnover in the Allied Health and Marketing departments that resulted in higher salaries, and a new full-time Student Services position. Employee Benefits did not increase to the same degree as Salaries and Wages because there were changes that resulted in fewer employees with family health insurance coverage.

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.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017 (Unaudited)

Depreciation increased \$391,806, or 63.35%, in fiscal year 2017 as a result of the fiscal year 2016 addition of \$20,121,351 of capitalized assets that were depreciated for a full year in fiscal year 2017 compared to only a half year in 2016. 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 \$146,349, or 6.53%, in fiscal year 2017. The increase is attributable to various fluctuations most of which are related to a full year of operations in the new Allied Health and Trades Building compared to only a half year in fiscal year 2016. Notable changes in Other Operating Expenses in fiscal year 2017 included the following:

- A \$39,893 increase in food and teaching supplies as a result of an increase in Culinary students from 79 in fiscal year 2016 to 212 in fiscal year 2017. Also contributing to the increase was the opening of the Southwest Café in fiscal year 2017.
- A \$24,213 increase in building/equipment supplies for preventative and corrective maintenance, an \$11,190 increase in custodial supplies and a \$34,658 increase in utilities. These increases were due to a full year of operation in the new building compared to a half year in fiscal year 2016.
- Professional Truck Driving fuel increased \$12,865 as a result of an increase in diesel fuel prices and the increase in students from 24 in 2016 to 53 in 2017.
- Telephone and non-capitalized computer parts and equipment increased \$36,239, and software licenses and maintenance increased \$25,466 as was expected. As the College settled into a new 80,000 square foot building, there were many IT infrastructure needs to fill.
- Non-capitalized furniture and equipment decreased \$358,369 compared to the prior year because of the significant amount of furnishings and small equipment that were purchased for use in the new building in fiscal year 2016.
- Marketing and advertising expenses increased \$17,376, or 13.8%, in fiscal year 2017 as the College made an effort to educate the community about its new facility and bring more students to the College.
- A \$13,337 increase in professional development includes training for the new Practical Nursing Director, financial aid training for Student Services, an employment law conference for Human Resources, and multiple other department-related training opportunities. Professional development also included registration for 5 employees' attendance at the fall 2016 Council on Occupational Education (COE) conference and 5 employees' registration for the 2017 summer COE conference. The College will have its accreditation reaffirmation visit in the fall of 2019, and it is necessary to train all of the employees that will be instrumental in this process.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017 (Unaudited)

- Scholarship Expense increased \$80,736, or 54.6%, when compared to fiscal year 2016. This increase in scholarships awarded was attributable to an increase in students with Pell grants and an increase in students receiving scholarships made possible by donations to the College scholarship program. Scholarship expense includes \$96,189 in Pell funds disbursed to students in fiscal year 2017 and \$130,580 in Pell funds remaining on student accounts at year end. In fiscal year 2016, the totals were \$70,620 and \$75,843, respectively.

Economic Overview and Outlook

During the 2014 State Legislative Session, the College secured \$19.3 million in funding to build the new Southwest Applied Technology College Allied Health and Trades building. The building was completed in December 2015, and the most immediate impact of the new facility has been to increase the College's capacity. Since the new building was completed, the College headcount and membership growth has been significant. Utah's economy continues to be one of the strongest in the country. In June 2017, Utah posted the second highest employment growth in the nation at 3.0 percent. While this is slightly down from 3.3 percent in May it is considerably higher than national averages and Utah is consistently one of the strongest states in the Intermountain West. Utah's unemployment rate for June 2017 was 3.4 percent compared to the nationwide unemployment rate of 4.4 percent. The state added more than 49,000 jobs during the period from June 2016 to June 2017 with the strongest job gains occurring in the trade, transportation and utilities sector; professional and business services sector; and construction sector. 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 APPLIED TECHNOLOGY COLLEGE

STATEMENT OF NET POSITION JUNE 30, 2017

ASSETS

Current Assets

Cash and Cash Equivalents (Notes 1 and 2)	\$ 2,399,467
Accounts Receivable	
Due from Primary Government	44,269
Other (Note 3)	44,852
Prepaid Expenses	66,346
Inventories (Note 1)	49,775
Total Current Assets	2,604,709

Noncurrent Assets (Notes 1 and 4)

Land	2,403,442
Buildings	20,330,839
Improvements	846,730
Equipment	4,341,655
Less Accumulated Depreciation	(3,332,321)
Total Noncurrent Assets	24,590,345
Total Assets	27,195,054

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Relating to Pensions	867,789
Total Deferred Outflows of Resources	867,789

LIABILITIES

Current Liabilities

Accounts Payable	
Due to Primary Government	9,383
Other (Note 3)	467,063
Accrued Payroll Expenses	213,510
Unearned Revenue	5,644
Accrued Compensated Absences	48,640
Capital Leases Payable (Notes 5 and 6)	70,295
Total Current Liabilities	814,535

Noncurrent Liabilities

Capital Leases Payable (Notes 5 and 6)	170,773
Net Pension Liability (Note 8)	1,617,383
Total Noncurrent Liabilities	1,788,156
Total Liabilities	2,602,691

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Relating to Pensions	200,110
Total Deferred Inflows of Resources	200,110

NET POSITION

Net Investment in Capital Assets	24,349,277
Unrestricted	910,765
Total Net Position	\$ 25,260,042

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, 2017

OPERATING REVENUES (Note 1)

Student Tuition and Fees (Net of Scholarship Allowance of \$270,028)	\$ 406,437
Custom Fit Training Revenue	178,398
Other Operating Revenues	174,115
Total Operating Revenues	<u>758,950</u>

OPERATING EXPENSES (Note 1)

Salaries and Wages	2,291,969
Employee Benefits	616,767
Actuarial Calculated Pension Expense (Note 8)	458,711
Purchased Services	660,777
Other Operating Expenses	1,496,504
Scholarship Expense	228,747
Depreciation	1,010,328
Total Operating Expenses	<u>6,763,803</u>
Operating Loss	(6,004,853)

NONOPERATING REVENUES

State Appropriations	4,756,800
Federal Grants and Contracts	408,142
Donations	22,214
State and Local Grants and Contracts	621,530
Investment Income	24,906
Total Nonoperating Revenues	<u>5,833,592</u>

OTHER REVENUES

Capital Appropriations	745,984
Capital Gifts/Grants	40,706
Gain on sale of Capital Assets	6,417
Total Other Revenues	<u>793,107</u>
Increase in Net Position	621,846

NET POSITION

Net Position – Beginning of Year	<u>24,638,196</u>
Net Position – End of Year	<u><u>\$ 25,260,042</u></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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Tuition and Fees	\$ 418,653
Receipts from Other Revenue Sources	174,115
Receipts from Custom Fit Training Revenue	178,398
Payments for Salaries and Benefits	(3,290,142)
Payments to Students and Suppliers	(2,206,147)
Net Cash Used by Operating Activities	<u>(4,725,123)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	4,756,800
Nonoperating Grants and Contracts	1,068,296
Donations	12,214
Net Cash Provided by Noncapital Financing Activities	<u>5,837,310</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(377,334)
Cash receipts from sale of assets	16,125
Payments for Capital Leases	(68,777)
Net Cash Used by Capital and Related Financing Activities	<u>(429,986)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of Interest on Investments	24,906
Net Cash Provided by Investing Activities	<u>24,906</u>
Net Increase in Cash and Cash Equivalents	707,107
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>1,692,360</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 2,399,467</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (6,004,853)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	1,010,328
Difference between Actuarial Calculated Pension Expense and Actual Contributions	77,305
Changes in Assets and Liabilities	
Accounts Receivable	21,437
Inventories	16,682
Prepaid Expenses	(34,535)
Accounts Payable	147,667
Accrued Payroll and Benefits	50,067
Unearned Revenue	(9,221)
Net Cash Used by Operating Activities	<u>\$ (4,725,123)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Donated Equipment	40,706
Completed construction project transferred from State of Utah	745,984
Total noncash, investing, capital and financing activities:	<u>\$ 786,690</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, 2017

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. The 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 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 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.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 using the first-in, first-out method.

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.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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.

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 State of Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) (the Act) that relate to the deposit and investment of public funds.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 Utah Money Management Council.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits may not be returned to it. The College and Foundation do not have a formal deposit policy for custodial credit risk. As of June 30, 2017, \$39,051 of the College's checking balance and \$139,850 of the SWATC Foundation bank balance was uninsured by FDIC 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.

The Act authorizes 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), 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).

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 Act. The Act established the Money

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017 fair value factor, as calculated by the Utah State Treasurer, to the College's June 30, 2017 balance in the PTIF. On June 30, 2017, the College had investments of \$1,785,101 with the PTIF. The investments were valued using level two 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 the Act, as previously discussed. The College's investments in PTIF at June 30, 2017 were all unrated. The Foundation does not have a formal policy for credit risk.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017 consist of unpaid student tuition and fee charges of \$11,846, which is net of an allowance for doubtful accounts of \$22,311, receivables from primary government of \$44,269, and \$33,006 of miscellaneous receivables. Accounts payable at June 30, 2017 consist of \$197,583 for Pell Grant funds applied to student accounts (disbursed to students or returned to the Department of Education), \$9,383 to primary government, and other miscellaneous payments to vendors for supplies and services totaling \$269,480.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 2,403,442	\$ -	\$ -	\$ 2,403,442
Buildings	20,186,203	144,636	-	20,330,839
Improvements	242,116	622,392	(17,778)	846,730
Equipment	4,020,505	396,996	(75,846)	4,341,655
Total	26,852,266	1,164,024	(93,624)	27,922,666
Less Accumulated Depreciation:				
Buildings, Improvements, and Equipment	(2,414,959)	(1,010,328)	92,966	(3,332,321)
Net Capital Assets	<u>\$ 24,437,307</u>	<u>\$ 153,696</u>	<u>\$ (658)</u>	<u>\$ 24,590,345</u>

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 \$209,563, respectively, as of June 30, 2017. The future minimum lease payments for the capital lease as of June 30, 2017, are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 70,295	\$ 4,705	\$ 75,000
2019	71,847	3,153	75,000
2020	73,434	1,566	75,000
2021	25,492	177	25,669
Total Capital Leases	\$ 241,068	\$ 9,601	\$ 250,669

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, 2017.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital Leases	\$ 309,845	\$ -	\$ (68,777)	\$ 241,068	\$ 70,295
Net Pension Liability	1,372,799	244,584	-	1,617,383	-
Total Noncurrent Liabilities	\$ 1,682,644	\$ 244,584	\$ (68,777)	\$ 1,858,451	\$ 70,295

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, 2017, operating lease expenses totaled \$306,030. The future minimum rental payments for operating leases as of June 30, 2017, are as follows:

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 309,348
2019	<u>286,166</u>
Total Payments	<u>\$ 595,514</u>

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 annotated 1953, as amended. 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, 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.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

Summary of Benefits by System

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 Utah Retirement 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, 2017 are as follows:

	Paid by Employer for Employee	College Contribution Rates
Noncontributory System	N/A	22.19%
Public Employees System Tier 2	N/A	18.24%

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

For fiscal year ended June 30, 2017 the employer and employee contributions to the Systems were as follows:

	College Contributions	Employee Contributions
Noncontributory System	\$ 280,240	N/A
Tier 2 Public Employees System	96,867	-
Total Contributions	<u>\$ 377,107</u>	<u>-</u>

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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.

Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Relating to Pensions

At June 30, 2017, the College reported a net pension asset of \$0 and a net pension liability of \$1,617,383.

	Net Pension Asset	Net Pension Liability	Proportionate Share Dec. 31, 2016	Proportionate Share Dec. 31, 2015	Change
Noncontributory System	\$ -	\$ 1,611,008	0.0497084%	0.0437018%	0.0060066%
Tier 2 Public Employees System	-	6,375	0.0571463%	0.0561137%	0.0010326%
Total Net Pension Liability	<u>\$ -</u>	<u>\$ 1,617,383</u>			

The net pension asset and liability were measured as of December 31, 2016, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2016 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, 2017, the College recognized pension expense of \$458,711. At June 30, 2017 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	\$ -	\$ 92,196
Changes in assumptions	174,933	20,561
Net difference between projected and actual earnings on pension plan investments	304,188	87,353
Changes in proportion and differences between contributions and proportionate share of contributions	196,490	-
Contributions subsequent to the measurement date	192,178	-
Total	<u>\$ 867,789</u>	<u>\$ 200,110</u>

Of the amount reported as deferred outflows of resources related to pensions, \$192,178 resulted from contributions made by the College prior to its fiscal year end but subsequent to the measurement date of December 31, 2016.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

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

<u>Year Ending December 31,</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2017	\$ 151,334
2018	\$ 155,540
2019	\$ 170,630
2020	\$ (3,948)
2021	\$ 146
Thereafter	\$ 1,798

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.35 – 10.35 percent, average, including inflation
Investment Rate of Return	7.20 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, 2016, valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2013.

The following actuarial assumption changes were adopted January 1, 2016. The assumed investment return assumption was decreased from 7.50% to 7.20% and the assumed inflation rate was decreased from 2.75% to 2.60%. With the decrease in the assumed rate of inflation, both the payroll growth and wage inflation assumptions were decreased by 0.15% from the prior year's assumption. 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 APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Expected Return Arithmetic Basis			
Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity Securities	40%	7.06%	2.82%
Debt Securities	20%	0.80%	0.16%
Real Assets	13%	5.10%	0.66%
Private Equity	9%	11.30%	1.02%
Absolute Return	18%	3.15%	0.57%
Cash and Cash Equivalents	0%	0.00%	0.00%
Totals	100%		5.23%
	Inflation		2.60%
	Expected Arithmetic Nominal Return		7.83%

The 7.20% assumed investment rate of return is comprised of an inflation rate of 2.60% and a real return of 4.60% that is net of investment expense.

The discount rate used to measure the total pension liability was 7.20%. 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 Utah Retirement Systems Board. Based on those assumptions, the pension plan's 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 7.20 percent from 7.50 percent from the prior measurement period.

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.20 percent 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 (6.20%) or one-percentage-point higher (8.20%) than the current rate:

Proportionate Share of Net Pension (Asset) / Liability			
	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Noncontributory System	\$ 2,953,812	\$ 1,611,008	\$ 485,607
Tier 2 Public Employees System	43,390	6,375	(21,785)
Total	\$ 2,997,202	\$ 1,617,383	\$ 463,822

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

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

NOTE 9. DEFINED CONTRIBUTION SAVINGS PLANS

The Defined Contribution Savings Plans are administered by the Utah Retirement 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), 457(b) 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
- 457(b) Plan
- Roth IRA Plan

The College contributes 1.5% (Noncontributory System) and 1.78% (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 (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, 2017 were as follows:

401(k) Plan	
Employer Contributions	\$123,170
Employee Contributions	55,251
457 Plan	
Employer Contributions	-
Employee Contributions	-
Roth IRA Plan	
Employer Contributions	N/A
Employee Contributions	4,500
Traditional IRA	
Employer Contributions	N/A
Employee Contributions	-

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017, SWATC Foundation received \$22,164 in cash donations that will be used by the College to provide educational scholarships.

The following schedules present condensed financial statements of SWATC Foundation for the fiscal year ended June 30, 2017:

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

SWATC Foundation

Condensed Statement of Net Position June 30, 2017

ASSETS

Current Assets

Cash and Cash Equivalents	\$	389,850
Accounts Receivable		10,000
		10,000
Total Assets		399,850

LIABILITIES

Current Liabilities

Payable to College		126,395
		126,395
Total Liabilities		126,395

NET POSITION

Unrestricted		273,455
		273,455
Total Net Position	\$	273,455

SWATC Foundation

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended June 30, 2017

OPERATING REVENUES

Donations	\$	22,164
		22,164
Total Operating Revenues		22,164

OPERATING EXPENSES

Purchased Services		37,491
Other Operating Expenses		776
		776
Total Operating Expenses		38,267
Operating Loss		(16,103)

NET POSITION

Net Position – Beginning of Year		289,558
Net Position – End of Year	\$	273,455

SWATC Foundation

Condensed Statement of Cash Flows For the Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Payments for supplies and services	\$	(24)
Receipts from Donations		12,164
		12,164
Net Cash Provided by Operating Activities		12,140
Increase in Cash and Cash Equivalents		12,140

CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR 377,710

CASH AND CASH EQUIVALENTS – END OF YEAR \$ 389,850

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

NOTE 13. SUBSEQUENT EVENTS

During the 2017 State Legislative session, the Utah College of Applied Technology (UCAT) name was changed to Utah System of Technical Colleges and the name of Southwest Applied Technology College was changed to Southwest Technical College, effective July 1, 2017.

In August 2017, the Utah Retirement Systems Board approved a change to the discount rate used to calculate the net pension liability from 7.20% to 6.95%. This reduction will increase both the collective net pension liability to be calculated as of December 31, 2017 and the College's share of this liability. However, the monetary effect of this change is not known.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

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

	December 31,		
	2016	2015	2014
<i>Noncontributory System</i>			
Proportion of Net Pension Liability (Asset)	0.0497084%	0.0437018%	0.0387199%
Proportionate Share of Net Pension Liability (Asset)	\$ 1,611,008	\$ 1,372,799	\$ 972,849
Covered Payroll	\$ 1,255,371	\$ 1,088,821	\$ 970,094
Proportionate Share of Net Pension Liability (Asset) as a Percentage of Covered Payroll	128.33%	126.08%	100.30%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	84.90%	84.50%	87.20%
<i>Tier 2 Public Employees System</i>			
Proportion of Net Pension Liability (Asset)	0.0571463%	0.0561137%	0.0739018%
Proportionate Share of Net Pension Liability (Asset)	\$ 6,375	\$ (122)	\$ (2,240)
Covered Payroll	\$ 468,647	\$ 362,474	\$ 362,393
Proportionate Share of Net Pension Liability (Asset) as a Percentage of Covered Payroll	1.36%	-0.03%	-0.60%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	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 APPLIED TECHNOLOGY COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

Schedule of Southwest ATC's Pension Contributions Noncontributory and Tier 2 Public Employees Systems of the Utah Retirement Systems Last 10 Fiscal Years ¹

Noncontributory System

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarial Determined Contributions	\$ 280,240	\$ 261,814	\$ 215,025	\$ 198,583	\$ 209,884	\$ 177,919	\$ 151,002	\$ 128,534	\$ 131,831	\$ 123,373
Contributions in relation to the contractually required contribution	(280,240)	(261,814)	(215,025)	(198,583)	(209,884)	(177,919)	(151,002)	(128,534)	(131,831)	(123,373)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,279,730	\$ 1,190,226	\$ 997,298	\$ 1,005,932	\$ 1,105,673	\$ 1,094,799	\$ 848,752	\$ 903,897	\$ 927,083	\$ 867,596
Contributions as a percentage of covered payroll ²	21.90%	22.00%	21.56%	19.74%	18.98%	16.25%	17.79%	14.22%	14.22%	14.22%

Tier 2 Public Employees System ³

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



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 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, 2017, and the related notes to the financial statements, which collectively comprise the College's financial statements, and have issued our report thereon dated February 15, 2018.

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, 2018