

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, 2015

Report No. 15-42



**OFFICE OF THE
UTAH STATE AUDITOR**

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AUDIT LEADERSHIP:

Jason Allen, CPA, CFE, Audit Supervisor
Stephen Miller, CPA, Audit Senior

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

FOR THE YEAR ENDED JUNE 30, 2015

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OFFICE OF THE
UTAH 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, 2015, 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, 2015, 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, 2015, 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.

For fiscal year 2015, the College implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As a result of these required changes in accounting principle, the College recorded a \$995,464 reduction in beginning net position. The amounts reported for ending net position reflect the newly required net pension assets, deferred outflows of resources, net pension liabilities, and deferred inflows of resources related to the College's participation in defined benefit retirement systems. See Notes 1 and 8 for further information. Our opinion for the College 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 10 and the College's Schedule of Proportionate Share of the Net Pension Liability and Schedule of Defined Benefit Pension Contributions on pages 28 and 29 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 3, 2016 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Office of the Utah State Auditor

Office of the Utah State Auditor
February 3, 2016

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015 (Unaudited)

As Management of the Southwest Applied Technology College (College), we offer this narrative overview and analysis of the financial activities of the College for the fiscal year ended June 30, 2015 to the readers of the College's financial statements.

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

Overview of the Financial Statements

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

Statement of Net Position. The Statement of Net Position provides information on the College's assets, 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

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015 (Unaudited)

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, 2015 and 2014:

	Year Ended June 30, 2014	Year Ended 6/30/2014*	Increase (Decrease)	Percent Increase (Decrease)
Current Assets	\$ 1,850,578	\$ 1,209,715	\$ 640,863	53%
Capital Assets	4,960,659	4,967,053	(6,394)	0%
Noncurrent Assets	2,240	-	2,240	100%
Total Assets	<u>6,813,477</u>	<u>6,176,768</u>	<u>636,709</u>	10%
Deferred Outflows of Resources	<u>163,190</u>	<u>-</u>	<u>163,190</u>	100%
Current Liabilities	672,944	580,556	92,388	16%
Noncurrent Liabilities	1,282,694	503,350	779,344	155%
Total Liabilities	<u>1,955,638</u>	<u>1,083,906</u>	<u>871,732</u>	80%
Deferred Inflows of Resources	<u>94,350</u>	<u>-</u>	<u>94,350</u>	100%
Net Position:				
Net Investment in Capital Assets	4,457,309	4,275,328	181,981	4%
Unrestricted	469,370	817,534	(348,164)	(43%)
Total Net Position	<u>\$ 4,926,679</u>	<u>\$ 5,092,862</u>	<u>\$ (166,183)</u>	(3%)

* The 2014 amounts presented here have not been changed for the prior period adjustment discussed in Note 1.

Total Assets of the College increased by \$636,709 or 10% during fiscal year 2015. The 53% increase in Current Assets is primarily a result of \$419,457 in donations to SWATC Foundation for the purpose of purchasing furniture and equipment for the new SWATC Allied Health and Trades building and receivables for various grant reimbursements at year end.

Significant additions to the College's Capital Assets during fiscal year 2015 included a Professional Truckdriving Simulator and several pieces of equipment purchased with a Utah

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015 (Unaudited)

Cluster Acceleration Partnership (UCAP) Grant for Advanced Manufacturing. These purchases were offset by depreciation expense of \$241,991.

In 2015, the College implemented Governmental Accounting Standards Board Statement No. 68 (GASB 68) and No. 71 (GASB 71) which resulted in a Net Pension Asset of \$2,240, included in Noncurrent Assets, and Deferred Outflows of Resources relating to Pensions of \$163,190. GASB 68 and GASB 71 are discussed in more detail in Note 8 to the financial statements

A 16% increase in Current Liabilities includes offsetting changes in multiple accounts. Accounts payable increased 42% as a result of various balances due at year end for purchases related to the UCAP grant discussed previously and reimbursements due to local employers for Custom Fit training. The increase in vendor payables was offset by an 18% decrease in accrued Compensated Absences and a 72% decrease in Unearned Revenue. The decrease in Accrued Compensated Absences is a result of a vacation payout to the College's president who retired in September 2014, and Unearned Revenue decreased as a result of fewer students enrolled for courses in July 2015 when compared to July 2014.

The 155% increase in Noncurrent Liabilities is due to a \$972,849 Net Pension Liability related to the GASB 68 and GASB 71 implementation (see Note 8) and a decrease of 38% in Capital Leases Payable due to principal payments of \$188,375 made on capital leases during fiscal year 2015.

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, 2015 and 2014.

<u>Net Position</u>	<u>Year Ended June 30, 2015</u>	<u>Year Ended June 30, 2014*</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Operating Revenues	\$ 612,186	\$ 656,575	\$ (44,389)	(7%)
Operating Expenses	4,553,400	4,076,922	476,478	12%
Operating Loss	(3,941,214)	(3,420,347)	520,867	(15%)
Nonoperating Revenues	4,770,495	3,728,393	1,042,102	28%
Net Increase in Net Position	829,281	308,046	521,235	169%
Total Net Position – Beginning of Year	5,092,862	4,784,816	308,046	
Prior Period Adjustment (See note 8)	(995,464)	-	(995,464)	
Net Position Beginning of Year (restated)	4,097,398	-	-	
Total Net Position – End of Year	\$ 4,926,679	\$ 5,092,862	\$ (166,183)	

* The 2014 amounts presented here have not been changed for the prior period adjustment discussed in Note 1.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015 (Unaudited)

The College experienced a net operating loss of \$3,941,214 during fiscal year 2015. 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.

Revenues. The following schedule presents a summary of College revenues for the fiscal years ended June 30, 2015 and 2014.

<u>Revenues</u>	<u>Year Ended June 30, 2015</u>	<u>Percent of Total Revenue</u>	<u>Year Ended June 30, 2014</u>	<u>Percent of Total Revenue</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Operating Revenues:						
Student Tuition and Fees	\$ 352,615	6%	\$ 443,877	10%	\$ (91,262)	(21%)
CustomFit Training Revenue	151,531	3%	102,258	2%	49,273	48%
Other Revenue	108,040	2%	110,440	3%	(2,400)	(2%)
Total Operating Revenues	<u>612,186</u>	<u>11%</u>	<u>656,575</u>	<u>15%</u>	<u>(44,389)</u>	<u>(7%)</u>
Nonoperating Revenues:						
State Appropriations	3,389,500	63%	2,975,400	67%	414,100	14%
Federal Grants and Contracts	294,977	5%	242,073	6%	52,904	22%
State and Local Grants and Contracts	658,751	12%	479,563	11%	179,188	37%
Donations	419,537	8%	24,594	1%	394,943	1606%
Investment Income	7,730	0%	6,763	0%	967	14%
Total Nonoperating Revenues	<u>4,770,495</u>	<u>89%</u>	<u>3,728,393</u>	<u>85%</u>	<u>1,042,102</u>	<u>28%</u>
Total Revenues	<u>\$ 5,382,681</u>	<u>100%</u>	<u>\$ 4,384,968</u>	<u>100%</u>	<u>\$ 997,713</u>	<u>23%</u>

Operating Revenues. Operating Revenues decreased by \$44,389 or 7% during the year ended June 30, 2015 when compared to the prior year. This net decrease is attributed to several factors which include a \$91,262 or 21% decrease in Student Tuition and Fees, a \$2,400 or 2% decrease in Other (bookstore) Revenue, offset by a \$49,273 or 48% increase in Custom Fit Training Revenue.

In fiscal year 2015, the College experienced a 9.96% decrease in adult headcount and an 8.4% decrease in adult membership hours. There was a 4.85% increase in the headcount and a 5.14% increase in membership hours for high school students; however, high school students do not pay tuition, and therefore, the increase does not provide a corresponding increase in operating revenues.

The decline in adult students and adult membership hours is attributed to two main factors. The College's Professional Truck Driving Program (CDL) has historically been one of the highest revenue generators for the College. The course is 6 weeks in length and the tuition and fees are higher than other courses offered. In fiscal year 2014, a majority of our students came from Washington County and were sponsored by the Department of Workforce Services (DWS). During fiscal year 2015, a professional Truck Driving program opened in Washington County

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015 (Unaudited)

and DWS started sending their sponsored students to the local training provider. This resulted in a 47% decrease in CDL Student Tuition and Fees revenue.

The second factor that affects the College's student fees and tuition is the improving job market. In fiscal year 2015, 59,200 jobs were added to the Utah economy. With the improvement in the employment market, many students have shortened their length of training time at the College or have discontinued their education for employment opportunities. Technology training is designed to provide job skills that will assist students in gaining employment; thus, Student Fees and Tuition was adversely affected by the improved economy.

The Tuition and Fees allowances of \$138,413 and \$120,023 for fiscal years 2015 and 2014, respectively, represent tuition and fees paid by federal financial aid, federal and state grants, college scholarships, fee waivers, and the employer services Custom Fit program. The increase is primarily attributed to an increase in Pell Grant funds applied to Student Tuition and Fees, an increase in fees paid through Custom Fit sponsorship, and an increase in student scholarships and waivers.

The College received an increase in nonoperating revenues pertaining to State appropriations for Custom Fit funding in fiscal year 2015 from \$219,900 to \$275,000. This 25% increase allowed the College's Employer Services Department to provide more Custom Fit Training which generated an increase in Custom Fit Training Revenue to the College. Custom Fit Training is generally funded 40% by Custom Fit training dollars and 60% by the employers participating in the training.

Nonoperating Revenues

Nonoperating Revenues increased 28% in fiscal year 2015 as a result of several factors, the most significant of which was a \$414,100 increase in the College's State Appropriation. All UCAT campuses received increases in their fiscal year 2015 appropriation for campus capacity building, a campus equity increase, a 1.25% COLA, and funding for health insurance and retirement increases. The campus capacity funds included \$292,500 of new money to hire a Health Science Program Coordinator and adjunct instructors, manufacturing and industrial maintenance equipment and supplies, a mobile computer lab, increased marketing and recruiting efforts, and a professional truckdriving simulator. Campus Equity funds of \$66,500 were used to correct salary and wage inequities along with the related benefit adjustments.

A 32% or \$232,092 increase in state and federal grants and contracts is attributable to an increase in Pell Grants, an increase in Custom Fit funds, as discussed previously, and an increase in state grant funding. Significant grant activity in fiscal year 2015 included the following:

- The College was selected to receive a \$100,000 grant from the State for a pilot workplace fundamentals program for students with disabilities.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015 (Unaudited)

- The College participated in a DWS UCAP grant that provided \$118,647 to purchase industrial maintenance and manufacturing equipment.
- The College participated in a Utah STEM grant with Success Academy and Washington County School District to provide \$49,315 for computer science training to a cohort of high school students. The current year increases were offset by a Rocky Mountain Power grant that concluded in fiscal year 2014.

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 to be completed in December 2015. As a result of this focus on fundraising, the SWATC Foundation received \$419,457 in donations. The donations included \$200,000 from the George S. and Dolores Eccles Foundation and \$200,000 from the Larry H. & Gail Miller Foundation.

Investment Income consists of interest earnings from the Utah Public Treasurers' Investment Fund. The College's State Appropriation remains in this account until transferred to the general checking account to cover operating expenses.

Expenses. The following schedule presents a summary of College expenses for the fiscal years ended June 30, 2015 and 2014:

Expenses	Year Ended June 30, 2015	Percent of Total Expenses	Year Ended June 30, 2014	Percent of Total Expenses	Increase (Decrease)	Percent Increase (Decrease)
Operating Expenses:						
Salaries and Wages	\$ 1,712,179	38%	\$ 1,651,672	40%	\$ 60,507	4%
Employee Benefits	473,361	11%	682,147	17%	(208,786)	(31%)
Actuarial Calculated Pension Expense	194,375	4%	-	0%	194,375	100%
Other Operating Expenses	1,931,494	42%	1,505,052	37%	426,442	28%
Depreciation	241,991	5%	238,051	6%	3,940	2%
Total Operating Expenses	\$ 4,553,400	100%	\$ 4,076,922	100%	\$ 476,478	12%

Salaries and Wages were 38% of total operating costs in 2015 and increased \$60,507 or 4% over the prior year, and Employee Benefits decreased \$208,786 or 31%. Fiscal year 2015 personnel changes that contributed to the salary and wage increases were the hiring of a full-time Health Science Coordinator, additional Health Science adjunct instructors, and the COLA increase discussed previously. Increases in Salaries and Wages were partially offset by turnover in personnel that were replaced with employees at a lower salary/wage. The significant decrease in employee benefits is a result of a \$288,070 adjustment required by the implementation of GASB 68 and GASB 71. Without the adjustment, employee benefits increased \$79,284 or 18%. This increase is consistent with an increase in salary and wages, a 7% increase in health and dental benefits, and the mandatory increase in Utah Retirement Systems contribution rates with increases of 1.73% and 1.52% for Tier 1 and Tier 2 employees, respectively.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015 (Unaudited)

Actuarial Calculated Pension Expense was a non-cash transaction that was recorded as part of the GASB 68 and GASB 71 implementation. See Note 8 for more information.

Other Operating Expenses increased by 28% or \$426,442 in fiscal year 2015. The increase is attributable to various fluctuations in teaching supplies and materials to support programs in addition to changes in overhead costs. Notable changes included the following:

- A \$93,835 increase in advertising and marketing expenses attributed to a new marketing campaign focused at changing the College's brand in anticipation of the opening of the new Allied Health and Trades building. The College contracted for the design of a new logo and website. Additional emphasis was also placed on recruiting in the College's four county region.
- A 50% decrease in the professional truck driving diesel fuel expense is consistent with a decrease in fuel costs as well as a decline in the student headcount in that program during fiscal year 2015 as discussed previously.
- A 54% increase in purchased services related to Custom Fit training and contracting with an outside contractor for fundraising. As discussed previously, the State Custom Fit appropriation increased 25% and Employer Training Revenue increased 48%. The increases in Custom Fit revenue provided funding to cover the purchased services necessary for employer driven training.
- Expenses for telephone and computer equipment increased \$12,270 as outdated equipment required replacement and telephones were added for the medical office lab that was previously located off campus.
- Equipment and furniture (non-capitalized) increased \$70,522. As discussed previously, the College purchased equipment and supplies funded by various grants received in fiscal year 2015.
- During fiscal year 2015 the College incurred expenses for several significant events, including the ground breaking for the new Allied Health and Trades building, a beginning-of-the-school-year professional development day for all staff and faculty and a kick-off event for the unveiling of the new logo and branding elements.
- Scholarship expense increased \$34,081 or 25% as a result of more Federal Pell grants awarded and an increase in the amounts disbursed to students for living expenses and balances remaining on student accounts at year end.

Economic Overview and Outlook

Utah typically grows more rapidly than the nation after recessions and this pattern is continuing in the current recovery. During fiscal year 2015, the Utah employment market continued to improve and employment grew by an estimated 4.5%. The unemployment rate in June 2015 was 3.5%, which was consistent with the prior year and 1.8% better than the United States national average of 5.3%. There was an increase of 59,200 non-farm jobs in Utah when compared to June 2014.

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015 (Unaudited)

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 Technology Building. The building was completed in December 2015, and the most immediate impact of the new facility will be to increase the College's capacity by about 150 percent. The College will then be able to offer technical training that was not possible in the limited space of its existing building. With the improvement of the economy and the ability to provide high-level specialized training, the College 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 Applied Technology College, 757 West 800 South, Cedar City, UT 84720.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

STATEMENT OF NET POSITION

JUNE 30, 2015

ASSETS

Current Assets

Cash and Cash Equivalents (Notes 1 and 2)	\$ 1,627,989
Accounts Receivable, net	
Due from Primary Government	133,298
Other (Note 3)	28,122
Prepaid Expenses	7,615
Inventories (Note 1)	53,554
Total Current Assets	<u>1,850,578</u>

Noncurrent Assets (Notes 1 and 4)

Net Pension Asset	2,240
Land	2,403,442
Buildings	2,688,722
Improvements	286,948
Equipment	1,651,414
Less Accumulated Depreciation	(2,069,867)
Total Noncurrent Assets	<u>4,962,899</u>

Total Assets 6,813,477

Deferred Outflows of Resources

Deferred Outflows Related to Pensions	163,190
Total Deferred Outflows of Resources	<u>163,190</u>

LIABILITIES

Current Liabilities

Accounts Payable (Note 3)	323,312
Accrued Payroll Expenses	122,882
Accrued Compensated Absences	29,988
Unearned Revenue	3,257
Capital Leases Payable (Notes 5 and 6)	193,505
Total Current Liabilities	<u>672,944</u>

Noncurrent Liabilities

Capital Leases Payable (Notes 5 and 6)	309,845
Net Pension Liability	972,849
Total Noncurrent Liabilities	<u>1,282,694</u>

Total Liabilities 1,955,638

Deferred Inflows of Resources

Deferred Inflows Related to Pensions	94,350
Total Deferred Inflows of Resources	<u>94,350</u>

NET POSITION

Net Investment in Capital Assets	4,457,309
Unrestricted	469,370
Total Net Position	<u>\$ 4,926,679</u>

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, 2015

OPERATING REVENUES (Note 1)

Student Tuition and Fees (Net of Scholarship Allowance of \$138,413)	\$ 352,615
Custom Fit Training Revenue	151,531
Other Revenue	108,040
Total Operating Revenues	<u>612,186</u>

OPERATING EXPENSES (Note 1)

Salaries and Wages	1,712,179
Employee Benefits	473,361
Actuarial Calculated Pension Expense (Note 8)	194,375
Purchased Services	551,339
Other Operating Expenses	1,209,905
Scholarship Expense	170,250
Depreciation	241,991
Total Operating Expenses	<u>4,553,400</u>
Operating Loss	<u>(3,941,214)</u>

NONOPERATING REVENUES

State Appropriations	3,389,500
Federal Grants and Contracts	294,977
Donations	419,537
State and Local Grants and Contracts	658,751
Investment Income	7,730
Net Nonoperating Revenues	<u>4,770,495</u>

Increase in Net Position 829,281

NET POSITION

Net Position – Beginning of Year	5,092,862
Prior Period Adjustment (Note 1)	(995,464)
Net Position – Beginning of Year (restated)	<u>4,097,398</u>
Net Position - End of Year	<u>\$ 4,926,679</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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Tuition and Fees	\$ 342,546
Receipts from Other Revenue Sources	108,040
Receipts from Custom Fit Training Revenue	151,531
Payments for Salaries and Benefits	(2,473,903)
Payments to Students and Suppliers	(1,808,916)
Net Cash Used by Operating Activities	<u>(3,680,702)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipts from State Appropriations	3,389,500
Receipts from Nonoperating Grants and Contracts	891,673
Donations	419,537
Net Cash Provided by Noncapital Financing Activities	<u>4,700,710</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash Paid for Capital Assets	(235,597)
Cash Paid for Capital Debt and Leases	(188,375)
Net Cash Used by Capital and Related Financing Activities	<u>(423,972)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of Interest on Investments	7,730
Net Cash Provided by Investing Activities	<u>7,730</u>
Net Increase in Cash and Cash Equivalents	603,766
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	1,024,223
CASH AND CASH EQUIVALENTS – END OF YEAR	<u><u>\$ 1,627,989</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (3,941,214)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	241,991
Difference between Actuarial Calculated Pension Expense and Actual Contributions	(93,695)
Changes in Assets and Liabilities	
Accounts Receivable	(1,544)
Inventories	1,160
Prepaid Expenses	(809)
Accounts Payable	122,227
Accrued Payroll and Benefits	(293)
Unearned Revenue	(8,525)
Net Cash Used by Operating Activities	<u><u>\$ (3,680,702)</u></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, 2015

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

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

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

Funding for the College is received primarily from direct appropriations from the Utah State Legislature, as well as tuition and fees, and grants and contracts from 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 Southwest Applied Technology 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, 2015

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.

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 estimated fair value at the date of donation.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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.

Adjustment to Beginning Net Position

Effective July 1, 2014 the College implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As a result, beginning net position was reduced \$995,464. This reduction reflects the College's \$1,118,564 share of the beginning net pension liability in the Noncontributory System, the College's \$444 share of the beginning net pension liability in the Tier 2 Public Employee System, and the College's \$123,544 of contributions made to the Systems between January 1 and June 30, 2014. See Note 8 for further information on pension reporting.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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.

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, 2015, \$176,579 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

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

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

On June 30, 2015, the College had investments of \$1,150,700 with the PTIF. The entire balance had a maturity of less than one year.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the 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.

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, 2015 were all unrated.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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.

NOTE 3. ACCOUNTS RECEIVABLE AND PAYABLE

Other accounts receivable at June 30, 2015 consist of unpaid student tuition and fee charges of \$8,190, which is net of an allowance for doubtful accounts of \$18,434, and \$19,932 of miscellaneous receivables. Accounts payable at June 30, 2015 consist of \$119,068 for Pell Grant funds applied to student accounts (disbursed to students or returned to the Department of Education) and other miscellaneous payments to vendors for supplies and services totaling \$204,244.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 2,403,442	\$ -	\$ -	\$ 2,403,442
Buildings	2,688,722	-	-	2,688,722
Improvements	286,948	-	-	286,948
Equipment	<u>1,416,975</u>	<u>235,597</u>	<u>(1,158)</u>	<u>1,651,414</u>
Total	6,796,087	235,597	(1,158)	7,030,526
Less Accumulated Depreciation: Buildings, Improvements, and Equipment	<u>(1,829,034)</u>	<u>(241,991)</u>	<u>1,158</u>	<u>(2,069,867)</u>
Net Capital Assets	<u>\$ 4,967,053</u>	<u>\$ (6,394)</u>	<u>\$ -</u>	<u>\$ 4,960,659</u>

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

NOTE 5. CAPITAL LEASE OBLIGATIONS

The College has incurred capital lease obligations for rental of various instruction and related facilities. The cost of the buildings held under capital leases and related depreciation totaled \$2,688,722 and \$863,485, respectively, as of June 30, 2015. The future minimum lease payments for all capital leases as of June 30, 2015, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 193,505	\$ 11,495	\$ 205,000
2017	68,777	6,223	75,000
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	<u>\$ 503,350</u>	<u>\$ 27,319</u>	<u>\$ 530,669</u>

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, 2015.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Leases	\$ 691,725	\$ -	\$ 188,375	\$ 503,350	\$ 193,505
Net Pension Liability	1,119,008	-	146,159	972,849	-
	<u>\$ 1,810,733</u>	<u>\$ -</u>	<u>\$ 334,534</u>	<u>\$ 1,476,199</u>	<u>\$ 193,505</u>

NOTE 7. OPERATING LEASES

In May 2014, the College renewed a five-year lease for rental of instruction 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, 2015, operating lease expenses totaled \$311,844. The future minimum rental payments for operating leases as of June 30, 2015, are as follows:

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 303,253
2017	306,103
2018	309,348
2019	286,166
Total	<u>\$ 1,204,870</u>

NOTE 8. DEFINED BENEFIT PENSION PLANS

Plan Description

As required by State law, eligible employees of the College are covered by defined benefit pension plans sponsored by the Utah Retirement Systems (Systems). Eligible plan participants are provided with pensions through the following pension trust funds, which are cost-sharing, multiple-employer, public employee retirement systems:

- Public Employees Noncontributory Retirement System (Noncontributory System)
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees 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 provide refunds, retirement benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries in accordance with the retirement statutes. The Systems are established and governed by the respective sections of Title 49 of the *Utah Code*. The Utah Retirement Office Act in Title 49 provides for the administration of the Systems and plans under the direction of the Utah State Retirement Board (URS Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102, by calling 1-800-365-8772, or by visiting the website www.urs.org.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 any 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.

Contributions: 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 URS Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable), is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates are as follows:

	<u>Employer Contribution Rates</u>
Noncontributory System	
16 - State and School Division Tier 1	22.19%
Contributory System	
112 - State and School Division Tier 2	18.27%

At December 31, 2014, the College reported a net pension asset of \$2,240 and a net pension liability of \$972,849.

	<u>Proportionate Share</u>	<u>Net Pension Asset</u>	<u>Net Pension Liability</u>
Noncontributory System	0.0387199%	\$ -	\$ 972,849
Tier 2 Public Employees System	0.0739018%	2,240	-
Total Net Pension Asset / Liability		<u>\$ 2,240</u>	<u>\$ 972,849</u>

The net pension asset and liability were measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset and liability was determined by an

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

actuarial valuation as of January 1, 2014 and rolled forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability was based upon actual historical employer contributions to the plan from the census data submitted to the plan for pay periods ending in 2014.

For the year ended December 31, 2014, the College recognized pension expense of \$194,375. At December 31, 2014, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 61,117
Changes in assumptions	-	33,233
Net difference between projected and actual earnings on pension plan investments	17,070	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	146,120	-
Total	\$ 163,190	\$ 94,350

Contributions of \$146,120 made between January 1, 2015 and June 30, 2015 are reported as deferred outflows of resources related to pensions. 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:

Year Ended December 31	Deferred Outflows (Inflows) of Resources
2015	\$ (19,527)
2016	\$ (19,527)
2017	\$ (19,527)
2018	\$ (16,251)
2019	\$ (392)
Thereafter	\$ (2,057)

Actuarial assumptions: The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 Percent
Salary increases	3.50 - 10.75 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Active member mortality rates are a function of the member's gender, occupation, and age and are developed based upon plan experience. Retiree mortality assumptions are highlighted in the table below.

Retired Member Mortality

Class of Member

Educators	
Men EDUM	90%
Women EDUF	100%
Public Safety and Firefighters	
Men RP 2000mWC	100%
Women EDUF	120%
Local Government, Public Employes	
Men RP 2000mWC	100%
Women EDUF	120%

EDUM = Constructed mortality table based on actual experience of male educators multiplied by given percentage

EDUF = Constructed mortality table based on actual experience of female educators multiplied by given percentage

RP 2000mWc = RP 2000 Combined mortality table for males with white collar adjustments multiplied by given percentage

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of an actuarial experience study for the five-year period of January 1, 2008 through December 31, 2013.

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. 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:

Asset class	Expected Return Arithmetic Basis		
	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%	0.00%
Totals	100%		5.23%
		Inflation	2.75%
		Expected arithmetic nominal return	7.98%

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

The 7.50% assumed investment rate of return is comprised of an inflation rate of 2.75% and a real return of 4.75% that is net of investment expense.

Discount rate: The discount rate used to measure the total pension liability was 7.50%. 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 URS 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.

Sensitivity of the proportionate share of the net pension asset and liability to changes in the discount rate: The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50%) or one-percentage-point higher (8.50%) than the current rate:

	Decrease (6.50%)	Rate (7.50%)	Increase (8.50%)
Noncontributory System	\$ 1,938,240	\$ 972,849	\$ 164,331
Tier 2 Public Employees System	16,470	(2,240)	(16,347)
Net Pension (Asset)/Liability	<u>\$ 1,954,710</u>	<u>\$ 970,609</u>	<u>\$ 147,984</u>

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

NOTE 9. DEFINED CONTRIBUTION PLANS

Retirement plan employees are also eligible to participate in a deferred compensation 401(k) defined contribution plan. In fiscal year 2015, the College was required to contribute 1.5% of Tier 1 eligible employees' gross earnings and 1.78% of Tier 2 employees' gross earnings to the plan. Contributions to the 401(k) plan for the years ended June 30, 2015, 2014, 2013, and 2012, totaled \$91,031, \$76,158, \$69,740, and \$161,495 respectively.

In September of 2011, eligible employees of the Utah College of Applied Technology (UCAT) voted to discontinue their participation in Social Security Administration as allowed under the guidelines of Section 218 of the Social Security Act. As a result, beginning in October of 2011, the College began contributing 6.2% of these eligible

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

employees' salaries into their respective 401(k) accounts at either the Utah Retirement Systems or Educators Mutual Insurance.

The 2015 401(k) contribution to the Systems of \$91,031 includes the 1.5% and 1.78% required contribution in addition to the 6.2% that the College would have paid into Social Security on behalf of the retirement eligible employees. College employees made voluntary contributions of \$48,607 to the Utah State Retirement 401(k) plan and \$19,901 to the Educators Mutual 401(k) plan for the year ended June 30, 2015.

NOTE 10. COMPENSATED ABSENCES

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

Years of Continuous Employment	Days Accrued Per Year	Maximum Carryover
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.

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

The Foundation exists to further the charitable and educational purposes of the College. During the fiscal year ended June 30, 2015, SWATC Foundation received \$419,457 in donations that will be used by the College to purchase equipment and furniture for the College's new Allied Health and Trades building that was completed in December 2015.

The following schedules present condensed financial statements of SWATC Foundation for the fiscal year ended June 30, 2015:

Condensed Statement of Net Position June 30, 2015	
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 426,579
Total Assets	<u>426,579</u>
NET POSITION	
Unrestricted	<u>426,579</u>
Total Net Position	<u>\$ 426,579</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended June 30, 2015	
OPERATING REVENUES	
Donations	\$ 419,457
Total Operating Revenues	<u>419,457</u>
OPERATING EXPENSES	
Purchased Services	27,403
Other Operating Expenses	<u>3,207</u>
Total Operating Expenses	<u>30,610</u>
Operating Income	<u>388,847</u>
Increase in Net Position	388,847
NET POSITION	
Net Position – Beginning of Year	<u>37,732</u>
Net Position – End of Year	<u>\$ 426,579</u>

Condensed Statement of Cash Flows For the Year Ended June 30, 2015	
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments for supplies and services	\$ (30,610)
Receipts from Donations	<u>419,457</u>
Net Cash Provided by Operating Activities	<u>388,847</u>
Net Increase in Cash and Cash Equivalents	388,847
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>37,732</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 426,579</u>

SOUTHWEST APPLIED TECHNOLOGY COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2015

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

	Dec. 31, 2014	
	Noncontributory System	Tier 2 Public Employees System
Proportion of Net Pension Liability (Asset)	0.0387199%	0.0739018%
Proportionate Share of Net Pension Liability (Asset)	\$972,849	(\$2,240)
Covered Employee Payroll	\$970,094	\$362,393
Proportionate Share of Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	100.3%	(0.6%)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	87.2%	103.5%

Note: The College implemented GASB Statements 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, 2015

**Schedule of Southwest Applied Technology College's Defined Benefit Pension Contributions
Noncontributory and Tier 2 Public Employees Systems of the Utah Retirement Systems
Last 10 Fiscal Years**

Noncontributory System

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually Required Contribution	\$ 257,106	\$ 225,745	\$ 209,884	\$ 177,919	\$ 151,002	\$ 128,534	\$ 131,831	\$ 123,373	\$ 101,490	\$ 81,959
Contributions in Relation to the Contractually Required Contribution	\$ (257,106)	(225,745)	(209,884)	(177,919)	(151,002)	(128,534)	(131,831)	(123,373)	(101,490)	(81,959)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Covered Employee Payroll	\$ 997,298	\$ 1,005,932	\$ 1,105,673	\$ 1,094,799	\$ 848,752	\$ 903,897	\$ 927,083	\$ 867,596	\$ 713,714	\$ 612,547
Contributions as a Percentage of Covered-Employee Payroll	25.78%	22.44%	18.98%	16.25%	17.79%	14.22%	14.22%	14.22%	14.22%	13.38%

*Tier 2 Public Employees System***

	2015	2014	2013	2012	2011*	2010*	2009*	2008*	2007*	2006*
Contractually Required Contribution	\$ 30,765	\$ 27,986	\$ 12,401	\$ 3,184	n/a	n/a	n/a	n/a	n/a	n/a
Contributions in Relation to the Contractually Required Contribution	\$ (30,765)	(27,986)	(12,401)	(3,184)						
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -						

Covered Employee Payroll	\$ 369,327	\$ 329,240	\$ 144,875	\$ 41,951
Contributions as a Percentage of Covered-Employee Payroll	8.33%	8.50%	8.56%	7.59%

* The Tier 2 Public Employees System began enrollments in fiscal year 2012. Prior to the implementation of GASB Statements No. 68 and 71, Tier 2 information was not separately available.

** For employees participating in the Tier 2 Public Employees System, the College is required to contribute 18.27% of the employee's salary to the Systems. The College makes the required contributions by paying approximately 8% into the Tier 2 System while the remainder is contributed to the Tier 1 System as required by law. The amounts reported here reflect the contributions to the Tier 2 System rather than the total required.



OFFICE OF THE
UTAH STATE AUDITOR

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

To the Board of Directors, Audit Committee
and
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, 2015, and the related notes to the financial statements, which collectively comprise the College's financial statements, and have issued our report thereon dated February 3, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Office of the Utah State Auditor

Office of the Utah State Auditor
February 3, 2016