

SOUTHWEST TECHNICAL COLLEGE

A Component Unit of the State of Utah

Annual Financial Report
and
Government Auditing Standards Report
For the Year Ended June 30, 2019

Report No. 19-43



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Deputy State Auditor
Will Maguire, Audit Senior
Haniel Barajas, Audit Senior

SOUTHWEST TECHNICAL COLLEGE

FOR THE YEAR ENDED JUNE 30, 2019

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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, President
Southwest Technical College

Report on the Financial Statements

We have audited the accompanying financial statements of Southwest Technical College (College), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, as listed in the table of contents. The College is a component unit of the State of Utah.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis and the College’s Schedule of Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2020 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
March 3, 2020

SOUTHWEST TECHNICAL COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019 (Unaudited)

As management of Southwest Technical College (College), we offer this narrative overview and analysis of the financial activities of the College for the fiscal year ending June 30, 2019 to the readers of the College's financial statements.

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

Overview of the Financial Statements

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

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

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019 (Unaudited)

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

Financial Analysis

Statement of Net Position. The following schedule presents a summary of the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2019 and 2018:

Condensed Statement of Net Position

	June 30, 2019	June 30, 2018	Amount of	Percent
	Amount	Amount	Change	Change
Assets				
Current Assets	\$ 4,928,389	\$ 3,378,581	\$ 1,549,808	45.87%
Noncurrent Assets				
Capital Assets, Net	24,577,864	24,130,254	447,610	1.85%
Total Assets	29,506,253	27,508,835	1,997,418	7.26%
Deferred Outflows of Resources	807,742	860,673	(52,931)	(6.15%)
Liabilities				
Current Liabilities	981,011	793,197	187,814	23.68%
Noncurrent Liabilities	1,906,881	1,342,081	564,800	42.08%
Total Liabilities	2,887,892	2,135,278	752,614	35.25%
Deferred Inflows of Resources	48,526	606,308	(557,782)	(92.00%)
Net Position				
Net Investment in Capital Assets	24,478,938	23,959,481	519,457	2.17%
Restricted	827,967	-	827,967	100.00%
Unrestricted	2,070,672	1,668,441	402,231	24.11%
Total Net Position	\$ 27,377,577	\$ 25,627,922	\$ 1,749,655	6.83%

The 7.26% increase in Total Assets at June 30, 2019 when compared to the prior year is attributable to multiple factors, including a 43% increase in cash balances at year end compared to balances at June 30, 2018. During fiscal year 2019, Southwest Tech Foundation (Foundation) received approximately \$463,000 in donations of which \$400,000 is restricted for a remodel project at the Automotive and Technology building to be completed in 2020. The balance of the donations will be awarded as scholarships to Southwest Tech students. At June 30, 2019 the Foundation had a pledge receivable for scholarships of \$20,000. During fiscal year 2019, student tuition and fees exceeded the budgeted projection by 23% and operating expenses overall were less than budgeted. This additional cash flow will be used for future operating costs and the

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remodel mentioned previously. Also attributing to the significant increase in total assets was a \$114,925 receivable for fourth quarter State funding that flows through the USTC office. In previous years, the fourth quarter payment was made prior to June 30th.

Significant Capital Asset additions in fiscal year 2019 include a \$1.1 million phase I remodel of the Automotive and Technology building, two vehicles, computer system upgrades, equipment for the automotive, welding and industrial maintenance programs and installation of protective window covering at all three of the college's buildings. Total additions of \$1,592,880 were offset by depreciation expense of \$1,110,791.

Current Liabilities at June 30, 2019 increased 24% when compared to June 30, 2018. This increase is discussed below:

- Vendor Payables increased \$144,797 or 51% compared to June 30, 2018. This increase is a result of multiple large purchases made at year end which include equipment for an access control security system, the addition of evaporative pre-cooler pads to the existing mechanical equipment and a floor scrubber for facilities. Also included were invoices for 4th quarter contracted instruction and custom fit reimbursements to employers.
- Accounts Payable to students and sponsors included unused funds on account for students who have Pell funding and students sponsored by others such as the Department of Workforce Services, Vocational Rehabilitation Services, and Deseret Industries. This balance increased \$29,422 or 20%. This increase is attributable to enrollment growth and a new retention process. In fiscal year 2019, adult membership hours increased 13.9% with 12% growth in adult headcount when compared to the prior year. During fiscal year 2019 student services implemented a process to meet with students and assist them with enrollment for the following year prior to summer break. This process to improve retention resulted in more financial aid students retaining Pell Grant funds on account at year end. The college also transitioned its Welding program and Emergency Medical Technician programs from 11-month to 12-month schedules. This resulted in more students attending classes through the summer break and retaining credit balances on account.
- Accrued Compensated Absences increased \$8,950, or 13.8%, when comparing June 30, 2019 to the June 30, 2018. The number of vacation hours carried at the end of fiscal year 2019 increased by 95 hours, or 4.6% when compared to the prior year and the average hourly rate increased from \$25.26 to \$27.03 per hour. Increases are attributable to new benefit eligible employees and salary increases.
- A \$5,016 or 56% increase in Unearned Revenue is attributable primarily to an emphasis on crossover student counseling during the last quarter of fiscal year 2019. In an effort to improve student retention rates, Student Services attempted to meet with every student that would not have completed his/her program by year end to help them get enrolled for

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fiscal year 2020. As these enrollments took place, fiscal year 2020 fees and tuition were collected before they were earned.

Noncurrent Liabilities increased by 42% when comparing June 30, 2019 to June 30, 2018. This is primarily attributed to a 51% 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 \$73,433 decrease in the long-term balance of a Capital Lease payable to the Kane County School District which will be paid in full in January 2021.

The restrictions on net position at June 30, 2019 include \$500,000 restricted for the Automotive and Technology building remodel, \$274,416 for scholarships and \$53,551 from Contracts and Grants.

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, 2019 and 2018:

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

	Year Ended June 30, 2019 Amount	Year Ended June 30, 2018 Amount	Amount of Change	Percent Change
Operating Revenues	\$ 1,003,128	\$ 978,021	\$ 25,107	2.57%
Operating Expenses	(7,586,175)	(7,085,106)	(501,069)	7.07%
Operating Loss	(6,583,047)	(6,107,085)	(475,962)	7.79%
Nonoperating Revenues	6,946,282	6,013,000	933,282	15.52%
Other Revenues	1,386,420	461,965	924,455	200.11%
Increase in Net Position	1,749,655	367,880	1,381,775	375.60%
Net Position – Beginning of Year	25,627,922	25,260,042	367,880	1.46%
Net Position – End of Year	\$ 27,377,577	\$ 25,627,922	\$ 1,749,655	6.83%

The College experienced a net operating loss of \$6,583,047 during fiscal year 2019. 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.

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Revenues. The following schedule presents a summary of College revenues for the fiscal years ended June 30, 2019 and 2018:

	Year Ended June 30, 2019 Amount	Percent of Total Revenue	Year Ended June 30, 2018 Amount	Amount of Change	Percent Change
Operating Revenues					
Student Tuition and Fees	\$ 592,405	6.35%	\$ 526,893	\$ 65,512	12.43%
Custom Fit Training Revenue	209,716	2.25%	220,669	(10,953)	(4.96%)
Other Operating Revenues	201,007	2.15%	230,459	(29,452)	(12.78%)
Total Operating Revenues	1,003,128	10.74%	978,021	25,107	2.57%
Nonoperating Revenues					
State Appropriations	5,483,300	58.73%	5,046,700	436,600	8.65%
Federal Grants and Contracts	398,905	4.27%	406,443	(7,538)	(1.85%)
Donations	83,196	.89%	55,519	27,677	49.85%
State and Local Grants and Contracts	862,779	9.24%	443,983	418,796	94.33%
Investment Income	118,102	1.27%	60,355	57,747	95.68%
Total Nonoperating Revenues	6,946,282	74.40%	6,013,000	933,282	15.52%
Other Revenues					
Capital Appropriations	909,062	9.74%	301,350	607,712	201.66%
Capital Gifts	431,305	4.62%	133,884	297,421	222.15%
Gain on Sale of Capital Assets	32,323	.35%	26,731	5,592	20.92%
Facilities Rent	13,730	.15%	-	13,730	
Total Other Revenues	1,386,420	14.85%	461,965	910,725	197.14%
Total Revenues	\$ 9,335,830	100.00%	\$ 7,452,986	\$ 1,882,844	25.26%

Operating Revenues. Operating Revenues include fees, tuition, bookstore sales and culinary sales. Student Tuition and Fees increased 12.43% as a result of an increase in student headcount and membership hours. Total headcount and membership hours were 2,348 and 291,391, respectively, in fiscal year 2019 compared to 2,253 and 285,895, respectively, in fiscal year 2018. Adult headcount increased by 164 students (12%) and the corresponding number of membership hours increased by 25,909 (13.9%) indicating that not only was there an increase in adult students but that they were also staying longer and completing longer programs. Some of the most significant increases were experienced in Business and Digital Media, Emergency Medical Technician, Culinary and Welding.

Custom Fit training revenue is generated as the State Custom Fit appropriation is spent on training for local employers. The College generally covers 40% of the cost of Custom Fit training and the employer covers the remaining 60%. The State Custom Fit appropriation was \$345,000 for both fiscal years.

Other Operating Revenues includes bookstore sales of \$156,462 and Culinary Sales of \$44,545 in fiscal year 2019 compared to \$179,672 and \$50,787, respectively, in the prior year. The decrease in bookstore sales is attributed to the adoption of an online Cengage Unlimited

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subscription by a majority of the programs in place of hard copy text books. The subscription provides a substantial cost savings to the student and a reduction of bookstore costs and inventory for the College.

In fiscal year 2017, the Culinary Program opened the Southwest Café which prepares and serves upscale restaurant cuisine three days a week. It also caters luncheons for the Rotary and Lions Club meetings as well as other occasional events held at the College when course schedules permit.

The tuition and fees allowance of \$243,735 and \$233,387 for fiscal years 2019 and 2018, 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 allowance varies from year to year due to the number of students receiving Pell Grants and scholarships, their program costs, disbursements for living expenses and the amount of sponsorship funds available to sponsors such as the Department of Workforce Services and the Utah Department of Vocational Rehabilitation.

Pell grants applied to fees and tuition is included in the allowance; however, Pell grant funds disbursed to students is included in scholarship expense. The amount of Pell grants awarded in fiscal year 2019 was slightly lower than in fiscal year 2018 however the amount applied to fees and tuition increased from 29% in fiscal year 2018 to 33% of the amount awarded in fiscal year 2019. There are many factors that contribute to the amount disbursed to students including the amount of the award they qualified for, the length of time the student stays at the college, the amount of the award earned through attendance, the cost of their program and other sources of funding. When a student has a sponsor or scholarship, the Pell grant generally becomes secondary funding and more of it is available for the student's living expenses.

Another component of the tuition and fees allowance is scholarships applied to student tuition and fees which increased from \$15,408 in fiscal year 2018 to \$72,244 in fiscal year 2019. This significant increase is attributed primarily to an ongoing fundraising campaign to fund student scholarships. In fiscal year 2018, scholarship donations totaled \$56,000 with an additional \$83,196 of scholarship donations in fiscal year 2019. The increase in the scholarship component of the tuition and fees allowance was offset partially by a \$35,554 decrease in Custom Fit sponsorship of Southwest Tech students. In fiscal year 2019, the Custom Fit funding discontinued the practice of sponsoring Apprenticeship students. The student's employer was required to pay in full at enrollment and Custom Fit reimbursed the employer at the end of the year. These reimbursements are included as a Custom Fit expense and the portion paid by the employer is included in Custom Fit Training Revenue as part of the College's Operating Revenue.

Nonoperating revenues. Nonoperating Revenues increased by \$933,282, or 15.52%, in fiscal year 2019 as a result of several offsetting factors, the most significant of which was a \$436,600 increase in the College's State appropriation. This increase included funds to hire several new full-time employees including a liaison for a new dual enrollment program between the College and

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019 (Unaudited)

Southern Utah University (SUU), a Student Services Placement Specialist, a Practical Nursing Faculty, a Rural High School Distance Education Instructor, a full time Enrollment Technician and a Marketing and Recruiting Representative. Also included in the appropriation increase was a 2.5% compensation increase which was allocated as a 2% cost of living increase for Faculty and Staff and .5% for various salary equity increases.

Other notable changes in Nonoperating Revenues include the following:

- In fiscal year 2015 the SWATC Foundation (Foundation) contracted with an independent fundraiser to solicit funds for the purpose of purchasing furniture and equipment for the College's Health Professions 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 2019, \$483,196 in donations was received including \$400,000 received from the Larry H. & Gail Miller Family Foundation to be used towards the remodel of the Automotive and Technology building and the remainder was received from various donors for scholarship awards. The \$400,000 donation is included in Other Revenues as a Capital Gift.
- State and Local Grants and Contracts increased approximately \$418,796 or 94.33%, when comparing fiscal year 2019 to fiscal year 2018. This increase is attributable to \$202,200 in new equipment funds, \$69,500 for Utah System of Technical Colleges (USTC) scholarships, \$74,700 in funds flowing through USTC that were previously part of the State Appropriation and \$87,860 in Performance Funding also flowing through USTC.
- 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 2019 included capital appropriations of \$909,062 for building improvements at the Automotive and Technology building; donations of equipment for the industrial maintenance program with an acquisition value of \$31,305, a \$400,000 capital donation as discussed previously and a net gain of \$32,323 from the disposal of assets no longer used by the College, including a semi-tractor, John Deere backhoe, two fleet vehicles and various other small equipment items.

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019 (Unaudited)

Expenses. The following schedule presents a summary of College expenses for the fiscal years ended June 30, 2019 and 2018:

	Year Ended June 30, 2019 Amount	Percent of Total Expense	Year Ended June 30, 2018 Amount	Amount of Change	Percent Change
Operating Expenses					
Salaries and Wages	\$ 2,664,652	35.13%	\$ 2,390,658	\$ 273,994	11.46%
Employee Benefits	705,100	9.29%	624,331	80,769	12.94%
Actuarial Calculated Pension Expense	553,780	7.30%	421,769	132,011	31.30%
Depreciation	1,110,791	14.64%	1,089,970	20,821	1.91%
Other Operating Expenses	2,551,852	33.64%	2,558,378	(6,526)	(.26%)
Total Operating Expenses	\$ 7,586,175	100.00%	\$ 7,085,106	\$ 501,069	7.07%

Salaries and Wages were 35.13% of total operating costs in 2019 and increased \$273,994, or 11.46%, over the prior year, with Employee Benefits increasing \$80,769, or 12.94%. Fiscal year 2019 personnel changes that contributed to the increase in Salaries and Wages and Employee Benefits were the hiring of a liaison for a new dual enrollment program with Southern Utah University (SUU), a Student Services Placement Specialist, a Practical Nursing Faculty, a Rural High School Distance Education Instructor, a full time Enrollment Technician and a Marketing and Recruiting representative. Also included in the increase was a 2.5% compensation increase which was allocated as a 2% cost of living increase for Faculty and Staff and .5% for various equity increases. Actuarial calculated pension expense was a non-cash transaction that was recorded as required by GASB 68 and GASB 71. See Note 8 for more information.

Depreciation increased \$20,821, or 1.91% in fiscal year 2019 as a result of a full year of depreciation on \$645,799 of fiscal year 2018 capital asset additions and a partial year of depreciation on 2019 additions of \$461,342. The \$1,131,458 remodel cost of the 2019 Automotive and Technology building was not substantially complete and transferred from the State Department of Facilities and Construction Management (DFCM) until June 30th and depreciation did not begin until July 1, 2019. 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 decreased \$6,526, or .26%, in fiscal year 2019 and was 33.64% of operating expenses compared to 36.11% in fiscal year 2018. The net decrease is attributable to various offsetting fluctuations. Notable changes in Other Operating Expenses in fiscal year 2019 included the following:

- Building supplies and preventative and corrective maintenance decreased \$30,557 or 15% in fiscal year 2019 when compared to the prior year. Fiscal year 2018 was the first year that the College was fully responsible for maintenance on the Health Professions

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and Trades Building. The new construction warranty on that building ended in March of 2017. Another contributing factor in fiscal year 2018 was the need to do significant maintenance on the Business and Technology Building. Prior to July 2015, the building was owned and maintained by the Iron County School District. After the College took ownership, there were a number of improvement and maintenance projects that needed to be done, some of which were safety issues. The College was able to use funds that had been previously used for lease payments to do the projects. In fiscal year 2019 there were not as many corrective maintenance projects to be done since many of the Health Professions and Trades building issues were addressed the prior year and the Automotive and Technology building was being remodeled.

- Professional Truck Driving tractor maintenance and repairs decreased \$15,471 in fiscal year 2019. In the prior year, the College incurred an increase in maintenance expense to address needs of an aging fleet. In fiscal year 2017, there was a significant increase in professional truck driving students and as the tractors were used more, there were multiple maintenance issues that needed to be resolved. Throughout fiscal year 2018, the College completed the maintenance between classes while the tractors were not being used. In fiscal year 2019, the College sold a 2001 Freightliner semi-tractor and replaced it with a 2015 model.
- Telephone and Computer equipment expense includes computer equipment, supplies and materials relating to computers and infrastructure that does not meet the \$2,000 capitalization threshold. Fiscal year 2019 expense increased \$47,756 or 115% and includes multiple projects. An upgrade to the Health Professions and Trades building was necessary to double the wireless capacity to accommodate the use of online textbooks and online course curriculum. Also, in 2019 the College's virtual array had reached end of life and needed to be replaced and it was necessary to invest in a redundant firewall as a backup to the primary device. Other computer expenses include keyboards, monitors, chromebooks for mobile labs, charging carts adaptors, power cords, cables, docking stations and other miscellaneous computer related accessories.
- Teaching supplies increased \$26,084 or 30% and is attributable to an increase in students, increase in prices and a new Practical Nursing program that started its first cohort in September 2018. In addition to the new Practical Nursing program, the Emergency Medical Technician and Phlebotomy programs increased in membership hours by 44.5% and 13%, respectively. These programs require a significant supply of expensive hands on medical supplies. Also contributing to the increase in teaching supplies was the Welding Essentials program which increased 87.5% in membership hours and requires costly gases and metal for hands on learning.
- In fiscal year 2019, the College spent approximately \$37,400 for branding changes. Effective July 1, 2017 the legislature changed the College name from Southwest Applied

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Technology College to Southwest Technical College. As a result of this change, the College had to replace internal and external signage and vehicle branding.

- Lease payments for the automotive facility's operating lease decreased \$20,496 or 6.7% as a result of the termination of the lease in May 2019.
- Membership dues and subscriptions increased \$14,552 or 50% compared to fiscal year 2018 primarily as a result of accreditation fees and a site visit fee paid to the Accreditation Commission for Education in Nursing (ACEN). With the Practical Nursing program launching in fiscal year 2019, it was the first year the College had incurred these expenses. Also included in the increase was a subscription fee for Jobs EQ which is an online software platform that provides access to labor market data.
- Scholarship Expense decreased \$20,018 or 7.5%, when compared to fiscal year 2018. As discussed previously, the disbursement of Pell funds to students was 44% of the total amount awarded in fiscal year 2019 compared to 50% in the prior year.

Economic Overview and Outlook

Utah's economy continues to be one of the strongest in the country. As of June 2019, the state's year-over-year employment growth was the 3rd highest in the country at 2.7% compared to an employment growth rate of 1.5% for the entire United States. Utah's unemployment rate was 2.8% compared to the nationwide unemployment rate of 3.7%. This is the lowest unemployment rate in Utah since 2007 and employers are finding it more difficult to find qualified labor. Despite this challenge every major industry added jobs during fiscal year 2019 with education and health services, professional and business services and manufacturing sectors adding the most jobs. As existing businesses expand and new businesses move to Utah, it becomes increasingly more important to educate the employees that will be needed with the appropriate technical skills. With input from the College occupational advisory committees, the College continually channels efforts towards growth and diversification of program offerings to fit the needs of students and employers and looks forward to being an integral part of the future workforce development of its four-county service region.

Requests for Information

This financial report is designed to provide a general overview of the College's finances and show the College's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Southwest Technical College, 757 West 800 South, Cedar City, UT 84720.

SOUTHWEST TECHNICAL COLLEGE

STATEMENT OF NET POSITION

JUNE 30, 2019

ASSETS

Current Assets

Cash and Cash Equivalents (Notes 1 and 2)	\$ 4,630,091
Accounts Receivable	
Due from Primary Government	133,972
Other (Note 3)	59,879
Prepaid Expenses	46,801
Inventories (Note 1)	57,646
Total Current Assets	4,928,389

Noncurrent Assets (Notes 1 and 4)

Land	2,403,442
Buildings	21,462,296
Improvements	1,283,177
Equipment	4,517,298
Less Accumulated Depreciation	(5,088,349)
Total Noncurrent Assets	24,577,864

Total Assets

29,506,253

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Relating to Pensions	807,742
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Total Deferred Outflows of Resources

807,742

LIABILITIES

Current Liabilities

Accounts Payable	
Due to Primary Government	76,328
Other (Note 3)	524,287
Accrued Payroll Expenses	219,367
Unearned Revenue	14,019
Accrued Compensated Absences	73,575
Capital Leases Payable (Notes 5 and 6)	73,434
Total Current Liabilities	981,011

Noncurrent Liabilities

Capital Leases Payable (Notes 5 and 6)	25,492
Net Pension Liability (Note 8)	1,881,389
Total Noncurrent Liabilities	1,906,881

Total Liabilities

2,887,892

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Relating to Pensions	48,526
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Total Deferred Inflows of Resources

48,526

NET POSITION

Net Investment in Capital Assets	24,478,938
Restricted:	
Capital Projects	500,000
Scholarships	274,416
Contracts and Grants	53,551
Unrestricted	2,070,672
Total Net Position	\$ 27,377,577

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

SOUTHWEST TECHNICAL COLLEGE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2019

OPERATING REVENUES (Note 1)

Student Tuition and Fees (Net of Scholarship Allowance of \$243,735)	\$ 592,405
Custom Fit Training Revenue	209,716
Other Operating Revenues	201,007
Total Operating Revenues	<u>1,003,128</u>

OPERATING EXPENSES (Note 1)

Salaries and Wages	\$ 2,664,652
Employee Benefits	705,100
Actuarial Calculated Pension Expense (Note 8)	553,780
Purchased Services	654,296
Other Operating Expenses	1,650,751
Scholarship Expense	246,805
Depreciation	1,110,791
Total Operating Expenses	<u>7,586,175</u>
Operating Loss	(6,583,047)

NONOPERATING REVENUES

State Appropriations	5,483,300
Federal Grants and Contracts	398,905
Donations	83,196
State and Local Grants and Contracts	862,779
Investment Income	118,102
Total Nonoperating Revenues	<u>6,946,282</u>

OTHER REVENUES

Capital Appropriations	909,062
Capital Gifts/Grants	431,305
Gain on sale of Capital Assets	32,323
Facilities Rent	13,730
Total Other Revenues	<u>1,386,420</u>
Increase in Net Position	1,749,655

NET POSITION

Net Position – Beginning of Year	<u>25,627,922</u>
Net Position – End of Year	<u><u>\$ 27,377,577</u></u>

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

SOUTHWEST TECHNICAL COLLEGE

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Tuition and Fees	\$ 570,920
Receipts from Other Revenue Sources	201,007
Receipts from Custom Fit Training Revenue	209,716
Payments for Salaries and Benefits	(3,786,898)
Payments to Students and Suppliers	(2,378,437)
Net Cash Used by Operating Activities	<u>(5,183,692)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	5,483,300
Nonoperating Grants and Contracts	1,177,068
Facilities Rent	13,730
Donations	63,196
Net Cash Provided by Noncapital Financing Activities	<u>6,737,294</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(665,718)
Capital Gifts	400,000
Cash receipts from sale of assets	66,801
Payments for Capital Leases	(71,847)
Net Cash Used by Capital and Related Financing Activities	<u>(270,764)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of Interest on Investments	118,102
Net Cash Provided by Investing Activities	<u>118,102</u>
Net Increase in Cash and Cash Equivalents	1,400,940
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>3,229,151</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 4,630,091</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (6,583,047)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	1,110,791
Donations for equipment expensed	13,205
Difference between Actuarial Calculated Pension Expense and Actual Contributions	133,382
Changes in Assets and Liabilities	
Accounts Receivable	(34,582)
Inventories	(26,810)
Prepaid Expenses	17,139
Accounts Payable	169,881
Accrued Payroll and Benefits	11,333
Unearned Revenue	5,016
Net Cash Used by Operating Activities	<u>\$ (5,183,692)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Donated Equipment and Materials	31,305
Completed construction project transferred from State of Utah	909,062
Total noncash investing, capital and financing activities	<u>\$ 940,367</u>

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

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

The College is an independent college within the Utah System of Technical Colleges. The College is considered a component unit of the State of Utah and is included in the State's *Comprehensive Annual Financial Report*. The College is considered a component unit because it was established under Utah statute, receives appropriations from the State, and is financially accountable to the State.

The College was established by the Utah State Legislature to offer career and technical education to secondary and adult students. Effective September 1, 2001, the Legislature created the Utah College of Applied Technology (UCAT) which was composed of eight regional applied technology colleges. The College was one of these regional technology colleges and was subject to the authority of the Utah System of Higher Education under the control of the UCAT Board of Trustees. The College's local Board of Directors was charged with direct governance.

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

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

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

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

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Code. SWATC Foundation is a blended component unit of the College. A blended component unit is an entity which is legally separate from the College but which is so intertwined with the College that it is, in substance, the same as the College. The College appoints three positions on the SWATC Foundation Board of Directors and has the ability to significantly influence the programs, projects, and activities of the entity.

Measurement Focus and Basis of Accounting

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

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

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

Deposits and Investments

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

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

Investments for the College are reported at fair value in accordance with GASB No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Inventory

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

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Capital Assets

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

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

Capital assets are being depreciated over their estimated useful lives using the straight-line method of depreciation. The estimated useful life of an asset is determined at acquisition based on generally accepted accounting principles (GAAP) 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 Plans and additions to/deductions from the Systems' fiduciary net position are now determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are now recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

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

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2. DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits may not be returned to it. The College and SWATC Foundation do not have a formal deposit policy for custodial credit risk. The bank balances of the College and Foundation are insured by the Federal Deposit Insurance Corporation standard amount of \$250,000. As of June 30, 2019, \$431,765 of the SWATC Foundation's bank balance was uninsured and uncollateralized. All other bank account balances are fully insured.

Investments

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

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

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

Statutes authorize the College to invest in negotiable or nonnegotiable deposits of qualified or permitted depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. Government-sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Act; reciprocal deposits and negotiable brokered certificates of deposit in accordance with 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 and is not registered with the Securities Exchange Commission (SEC) as an investment company. The PTIF is authorized and regulated by the Act. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

Fair Value Investments

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

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

The value of the College's investment in the PTIF is calculated by applying the June 30, 2019 fair value factor, as calculated by the Utah State Treasurer, to the College's June 30, 2019 balance in the PTIF. On June 30, 2019, the College had investments of \$3,893,556 with the PTIF. The investments were valued using Level 2 measurements.

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. The College's entire PTIF balance had a maturity of less than one year.

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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, 2019 were all unrated. The Foundation does not have a formal policy for credit risk.

Concentration of Credit Risk

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

NOTE 3. ACCOUNTS RECEIVABLE AND PAYABLE

Accounts receivable at June 30, 2019 consist of unpaid student tuition and fee charges of \$10,995 which is net of an allowance for doubtful accounts of \$24,703; receivables from primary government of \$133,972; \$20,000 in donation pledge receivables and \$28,884 of miscellaneous receivables. Accounts payable at June 30, 2019 consist of \$81,570 for Pell Grant funds applied to student accounts (disbursed to students or returned to the Department of Education), \$76,328 to primary government, and other miscellaneous payments to student sponsors, vendors for supplies and services totaling \$442,717.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 2,403,442	\$ -	\$ -	\$ 2,403,442
Buildings	20,330,838	1,131,458	-	21,462,296
Improvements	1,164,323	196,203	(77,349)	1,283,177
Equipment	4,602,482	265,219	(350,403)	4,517,298
Total	28,501,085	1,592,880	(427,752)	29,666,213
Less Accumulated Depreciation:				
Buildings, Improvements, and Equipment	(4,370,832)	(1,110,791)	393,274	(5,088,349)
Net Capital Assets	\$ 24,130,253	\$ 482,089	\$ (34,478)	\$ 24,577,864

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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 \$251,475, respectively, as of June 30, 2019. The future minimum lease payments for the capital lease as of June 30, 2019, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 73,434	\$ 1,566	\$ 75,000
2021	25,492	177	25,669
2022	-	-	-
Total Capital Leases	<u>\$ 98,926</u>	<u>\$ 1,743</u>	<u>\$ 100,669</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, 2019.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital Leases	\$ 170,773	\$ -	\$ (71,847)	\$ 98,926
Net Pension Liability	1,243,156	638,233		1,881,389
Total Long-term Liabilities	<u>\$ 1,413,929</u>	<u>\$ 638,233</u>	<u>\$ (71,847)</u>	<u>\$ 1,980,315</u>

NOTE 7. OPERATING LEASES

In May 2014, the College renewed a five-year lease for rental of instructional facilities. Terms of the agreement included \$300,000 in annual payments for the first year and annual increases of 1% in each of the four subsequent years. The lease terminated in May 2019. Operating lease payments are recorded as expenses when incurred. For the year ended June 30, 2019, operating lease expenses totaled \$287,066.

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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. College employees participate in the following:

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

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

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

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

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

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

* with actuarial reductions

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

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the Systems' Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable), is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates as of June 30, 2019 are as follows:

	<u>Paid by College for Employee</u>	<u>College Contribution Rates</u>
Noncontributory System	N/A	22.19%
Tier 2 Public Employees System	N/A	18.87%

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

For fiscal year ended June 30, 2019 the employer and employee contributions to the Systems were as follows:

	<u>College Contributions</u>	<u>Employee Contributions</u>
Noncontributory System	\$ 229,892	N/A
Tier 2 Public Employees System	\$ 176,839	
Total Contributions	<u>\$ 406,731</u>	<u>\$ -</u>

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

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

At June 30, 2019, the College reported a net pension asset of \$0 and a net pension liability of \$1,881,389.

	Net Pension Asset	Net Pension Liability	Proportionate Share Dec. 31, 2018	Proportionate Share Dec. 31, 2017	Change
Noncontributory System	\$ -	\$ 1,853,368	0.0498148%	0.0506362%	-0.0008214%
Tier 2 Public Employees System	-	28,021	0.0654277%	0.0557836%	0.0096441%
Total Net Pension Liability	<u>\$ -</u>	<u>\$ 1,881,389</u>			

The net pension asset and liability were measured as of December 31, 2018. The total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2018 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, 2019, the College recognized pension expense of \$553,780. At June 30, 2019 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	\$ 10,070	\$ 31,796
Changes in assumptions	195,535	503
Net difference between projected and actual earnings on pension plan investments	317,474	-
Changes in proportion and differences between contributions and proportionate share of contributions	75,378	16,227
Contributions subsequent to the measurement date	209,285	-
Total	<u>\$ 807,742</u>	<u>\$ 48,526</u>

Of the amount reported as deferred outflows of resources related to pensions, \$209,285 resulted from contributions made by the College prior to its fiscal year end but subsequent to the measurement date of December 31, 2018. These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

<u>Year Ending December 31,</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2019	\$ 268,632
2020	\$ 87,325
2021	\$ 37,162
2022	\$ 150,484
2023	\$ 825
Thereafter	\$ 5,502

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience study for the five-year period ending December 31, 2016.

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

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

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

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

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

	1% Decrease (5.95%)	Discount Rate (6.95%)	1% Increase (7.95%)
Noncontributory System	\$ 3,331,357	\$ 1,853,368	\$ 616,846
Tier 2 Public Employees System	112,259	28,021	(36,989)
Total	\$ 3,443,616	\$ 1,881,389	\$ 579,857

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

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

NOTE 9. DEFINED CONTRIBUTION SAVINGS PLANS

The Defined Contribution Savings Plans are administered by the Systems' Board and are generally supplemental plans to the basic retirement benefits of the Retirement Systems, but may also be used as a primary retirement plan. These plans are voluntary tax-advantaged retirement savings programs authorized under sections 401(k), 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
- Roth IRA Plan
- 457 Plan

The College contributes 1.5% (Noncontributory System) and 1.03% (Tier 2 Public Employees System) of participating employees' annual salaries to a 401(k) Plan.

For employees participating in the Tier 2 Public Employees defined contribution plan (Tier 2 DC), the College is required to contribute 20.02% of the employee's salary, of which 10% is paid into a 401(k)/457 plan, while the remainder is contributed into the Tier 1 Contributory Public Employee System, as required by law. Employee and employer contributions to the Systems' Defined Contribution Savings Plans for fiscal year ended June 30, 2019 were as follows:

401(k) Plan

Employer Contributions	\$ 154,710
Employee Contributions	40,644

Roth IRA Plan

Employer Contributions	N/A
Employee Contributions	7,070

457 Plan

Employer Contributions	550
Employee Contributions	-

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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 Employers Preferred Insurance Company.

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, 2019, SWATC Foundation received \$483,196 in cash donations. The College will use \$400,000 for a remodel project at the Automotive and Trades building and \$83,196 to provide educational scholarships for students.

SOUTHWEST TECHNICAL COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Elimination of internal balances and transactions between the College and SWATC Foundation and a presentation of eliminated balances and transactions is required by generally accepted accounting principles. However, because there are no such internal balances, the following is a single-column, condensed version of the Foundation's financial statements for the fiscal year ended June 30, 2019.

SWATC Foundation

Condensed Statement of Net Position June 30, 2019

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 681,765
Accounts Receivable	20,000
Total Assets	701,765

LIABILITIES

Current Liabilities

Payable to College	568,052
Total Liabilities	568,052

NET POSITION

Unrestricted	133,713
Total Net Position	\$ 133,713

SWATC Foundation

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended June 30, 2019

OPERATING REVENUES

Donations	\$ 533,027
Total Operating Revenues	533,027

OPERATING EXPENSES

Scholarships and Grants to STech	547,197
Other Operating Expenses	72,991
Total Operating Expenses	620,188
Operating Income	(87,161)

NET POSITION

Net Position – Beginning of Year	220,874
Net Position – End of Year	\$ 133,713

SWATC Foundation

Condensed Statement of Cash Flows For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Payments for supplies and services	\$ (34,923)
Receipts from Donations	463,196
Net Cash Provided by Operating Activities	428,273
Increase in Cash and Cash Equivalents	428,273

CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR 253,492

CASH AND CASH EQUIVALENTS – END OF YEAR **\$ 681,765**

SOUTHWEST TECHNICAL COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2019

**Schedule of Southwest Technical College's Proportionate Share of the Net Pension Liability
Noncontributory and Tier 2 Public Employees Systems of the Utah Retirement Systems
Last Five fiscal years ending December 31st***

<i>Noncontributory System</i>	2018	2017	2016	2015	2014
Proportion of Net Pension Liability (Asset)	0.0498148%	0.0506362%	0.0497084%	0.0437018%	0.0387199%
Proportionate Share of Net Pension Liability (Asset)	\$ 1,853,368	\$ 1,238,238	\$ 1,611,008	\$ 1,372,799	\$ 972,849
Covered Payroll	\$ 1,177,922	\$ 1,257,810	\$ 1,255,371	\$ 1,088,821	\$ 970,094
Proportionate Share of Net Pension Liability (Asset) as a Percentage of Covered Payroll	157.34%	98.44%	128.33%	126.08%	100.30%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	84.100%	89.200%	84.90%	84.50%	87.20%
<i>Tier 2 Public Employees System</i>	2018	2017	2016	2015	2014
Proportion of Net Pension Liability (Asset)	0.0654277%	0.0557836%	0.0571463%	0.0561137%	0.0739018%
Proportionate Share of Net Pension Liability (Asset)	\$ 28,021	\$ 4,918	\$ 6,375	\$ (122)	\$ (2,240)
Covered Payroll	\$ 761,241	\$ 546,335	\$ 468,647	\$ 362,474	\$ 362,393
Proportionate Share of Net Pension Liability (Asset) as a Percentage of Covered Payroll	3.68%	0.90%	1.36%	-0.03%	-0.60%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	90.80%	97.40%	95.10%	100.20%	103.50%

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

SOUTHWEST TECHNICAL COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2019

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

Noncontributory System

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarial Determined Contributions	\$ 229,892	\$ 263,135	\$ 280,240	\$ 261,814	\$ 215,025	\$ 198,583	\$ 209,884	\$ 177,919	\$ 151,002	\$ 128,534
Contributions in relation to the contractually required contribution	(229,892)	(263,135)	(280,240)	(261,814)	(215,025)	(198,583)	(209,884)	(177,919)	(151,002)	(128,534)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,081,614	\$ 1,231,923	\$ 1,279,730	\$ 1,190,226	\$ 997,298	\$ 1,005,932	\$ 1,105,673	\$ 1,094,799	\$ 848,752	\$ 903,897
Contributions as a percentage of covered payroll ²	21.25%	21.36%	21.90%	22.00%	21.56%	19.74%	18.98%	16.25%	17.79%	14.22%

Tier 2 Public Employees System ³

	2019	2018	2017	2016	2015	2014	2013	2012 ⁴
Actuarial Determined Contributions	\$ 176,839	\$ 106,880	\$ 96,867	\$ 70,459	\$ 67,846	\$ 55,148	\$ 12,401	\$ 3,184
Contributions in relation to the contractually required contribution	(176,839)	(106,880)	(96,867)	(70,459)	(67,846)	(55,148)	(12,401)	(3,184)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 937,139	\$ 579,611	\$ 531,072	\$ 386,286	\$ 371,352	\$ 329,240	\$ 144,875	\$ 41,951
Contributions as a percentage of covered payroll ²	18.87%	18.44%	18.24%	18.24%	18.27%	16.75%	8.56%	7.59%

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

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

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

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



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, College President
Southwest Technical College

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southwest Technical College (the College) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 3, 2020.

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. However, pursuant to Utah Code Title 63G Chapter 2, this report is a matter of public record, and as such, its distribution is not limited.

Office of the State Auditor

Office of the State Auditor
March 3, 2020