Wichita Area Technical College

Independent Auditor's Report and Financial Statements

June 30, 2016 and 2015

Wichita Area Technical College
June 30, 2016 and 2015

Contents

Financial Highlights

The 2016 fiscal year was successful for the College as it continued to experience positive operational and cash growth. This was primarily driven by a 150% increase in dual enrollment hours from high school students taking traditional programs, resulting in a 5.4% overall increase in total hours. The increase in credit hours coupled with an increase in rates resulted in increased tuition and fee income. This was partially offset by a 10% decrease in the hours from SB155 classes. This switch from SB155 to high school programming hours is primarily due to the State re-tiering project. In addition, the College continued to experience decreased adult enrollment, resulting in a 4.3% decrease in the number of credit hours produced for traditional programming from adult students. Operating costs increased in 2016; however at a lower rate than operating revenues, resulting in a smaller operating loss. The College's debt burden decreased slightly as payments for the early retirement program and the existing debt were made. Cash increased by $430,000 due to positive operational results. The Board of Trustees has designated the use of $3,990,000 for deferred maintenance, operating emergencies and capital projects. Such uses, depending on the amount, are subject to approval of the Board. The table below identifies the changes over the past three years to the College's net position.

In 2016, the College launched the Wichita Promise scholarship campaign, using both institutional and donor funds, to pay for tuition and fees for students training in nine identified fields of study beginning in the fall 2016 semester. This campaign is designed to increase Wichita's skilled workforce to assist in meeting industry demand. The College expects this campaign to continue through 2017.

The College continues to maintain existing, and develop new, relationships with local industry by offering customized training solutions in addition to the traditional for-credit classes. Revenue in 2016 increased by $170,000 from 2015.

The College experienced an increase in grant related activity in 2016 due to new awards and fluctuations in existing, longer-term grants. The first to note is a $2,250,000 five-year Title III grant from the Department of Education on October 1, 2015. This grant is called Pathways to Success in Health Sciences

As of June 30, 2015, the College had recorded $12,921,232 in gross capital assets and $9,949,962 in accumulated depreciation that resulted in $2,971,270 in net capital assets.

Capital Assets, Net
June 30, 2015

	Cost	Accumulated Depreciation	Net Capital Assets
Leasehold improvements	$ 1,445,111	$ 1,349,848	$ 95,263
Software	3,224,578	2,689,766	534,812
Furniture, fixtures and equipment	7,110,859	5,258,346	1,852,513
Trucks	203,781	122,451	81,330
Aviation	936,903	529,551	407,352
Totals	$ 12,921,232	$ 9,949,962	$ 2,971,270

As of June 30, 2014, the College had recorded $12,481,928 in gross capital assets and $8,954,864 in accumulated depreciation that resulted in $3,527,064 in net capital assets.

Capital Assets, Net
June 30, 2014

	Cost	Accumulated Depreciation	Net Capital Assets
Leasehold improvements	$ 1,396,405	$ 1,286,707	$ 109,698
Software	3,125,689	2,237,116	888,573

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Net Position

Net position represents the reserve of the College after accounting for all liabilities. It is categorized by the type of restrictions and defined as follows:

- Net investment in capital assets – This represents the net book value of capital assets less any debt against those assets. These assets are not available to be used for operational purposes unless they are liquidated.
- Restricted, unexpendable – This represents the net position that h -1uravaila-e r ar dono

Operating Results

The statements of revenues, expenses and changes in net position present the College's results of operations. The statements distinguish revenues and expenses between operating and nonoperating categories and provide a view of the College's operating margin. Summary statements of revenues, expenses and changes in net position for the years ended June 30, 2016, 2015

Total operating expenses from 2015 to 2016 increased by $1,520,000.

€ Compensation and benefits increased by $800,000. Salary expense increased by $920,000, due primarily to three factors. There was an approximate 2.9% raise in 2016 resulting in approximately $330,000 in additional salary expense. There was a bonus paid out for 2016 services resulting in approximately $280,000 in additional salaries. Additional employees from 2015 resulted in approximately $210,000 in additional salaries. Salary and benefit reimbursements decreased by $180,000 as there was a reduction in the approved funding from National Center of Aviation Training (NCAT) funds. Benefit costs decreased by $300,000, primarily due to a $170,000 refund of unspent FY16 health insurance claims and a $140,000 reduction in unemployment insurance costs due to a rate adjustment effective January 1, 2016.

€ Supplies and materials increased by $310.000. Instructional supplies increased by $230,000 due to additional costs for student licensing and tools. Equipment, software and facility improvements increased by $200,000, net of capitalization, due to increased amounts of equipment purchased with new grant funds. These increases are offset by a $100,000 reduction in bookstore purchases, due to decreased sales.

€ Professional services increased by $370,000. NAC grant costs increased by $180,000 as the grant moved into an evaluative stage and additional costs were incurred for the sustainability aspect of the grant. Additional consulting services of $80,000 were incurred for evaluating a more formal integration with WSU. Other smaller initiatives accounted for the remaining increase.

€ Depreciation and amortization decreased by $150,000 as previously capitalized items became fully depreciated.

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Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Tuition and fees, net	$ 8,144,988	$ 6,957,248
Auxillary	1,362,755	1,503,645
Federal grants and contracts	3,073,120	1,926,910
State grants and contracts	279,090	231,940
Local grants	157,839	157,870
Other operating revenues	139,480	533,123
Total operating revenues	13,157,272	11,310,736
Operating Expenses		
Compensation and benefits	15,545,833	14,749,810
Contractual services	375,989	383,333
Supplies and materials	3,355,701	3,046,502
Professional services	1,882,782	1,510,001
Depreciation and amortization	971,662	1,122,800
Repairs and maintenance	330,368	349,865
Facilities and equipment rent	942,028	952,089
Utilities	776,642	841,501
Other	1,397,397	1,100,240
Total operating expenses	25,578,402	24,056,141
Operating Loss	(12,421,130)	(12,745,405)
Nonoperating Revenues (Expenses)		
Federal grants and contracts	3,980,936	4,503,214
State appropriations	6,510,597	6,380,385
State contributions to KPERS	1,170,002	995,336
Local appropriations	718,000	793,000
Contributions	60,484	23,249
Contributed services and materials	220,768	227,754
Investment income	5,524	47,820
Interest expense	(3,658)	(5,068)
Gain (loss) on disposal of equipment	2,530	(2,355)
Net nonoperating revenues	12,665,183	12,963,335
Net Income Before Capital Revenues	244,053	217,930
Capital Revenues		
Capital appropriations – State	204,847	262,879
Increase in Net Position	448,900	480,809
Net Position, Beginning of Year	11,284,798	10,803,989
Net Position, End of Year	$ 11,733,698	$ 11,284,798

Foundation

Wichita Area Technical College Foundation (the Foundation) is a legally separate, tax-exempt component unit of the College. The Foundation's primary function is to raise and hold funds to support the College and its programs. The board of the Foundation is self-perpetuating and consists of friends of the College. The sole constituency of the Foundation is the College, and the College has the right to exercise superior authority over the Foundation board at any time.

Although the College does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the College. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is presented using the blending method in the College's financial statements.

Note 2: Deposits, Investments and Investment Return

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not

Investments

The College did not have any investments at June 30, 2016 and 2015.

The Foundation is a 501(c)(3) organization and, as such, is not subjected to the same investing restrictions as the College. Investable assets of the Foundation are segregated from College accounts and are separately managed by the Foundation's Board of Trustees. Investments held in the Foundation at June 30, 2016 and 2015, consist of the following:

	2016		2015	
	Carrying Value	Cost	Carrying Value	Cost
Money market funds	$ 42,802	$ 42,802	$ 28,792	$ 28,792
Equity mutual funds	740,049	717,140	830,906	770,015

Wichita Area Technical College
Notes to Financial Statements
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Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2016 and 2015, was:

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Leasehold improvements	$ 1,445,111	$ -	$ -	$ -	$ 1,445,111
Software	3,224,578	6,555	-	-	3,231,133
Furniture, fixtures and equipment	7,110,859	518,108	(19,213)	-	7,609,754
Trucks	203,781	-	(7,275)	-	196,506
Aviation	936,903	-	-	-	936,903
	12,921,232	524,663	(26,488)	-	13,419,407
Less accumulated depreciation:					
Leasehold improvements	1,349,848	31,786	-	-	1,381,634
Software	2,689,765	450,957	-	-	3,140,722
Furniture, fixtures and equipment	5,258,347	395,078	(19,213)	-	5,634,212
Trucks	122,451	24,060	(7,275)	-	139,236
Aviation	529,551	48,457	-	-	578,008
	9,949,962	950,338	(26,488)	-	10,873,812
Net capital assets	$ 2,971,270	$ (425,675)	$ -iatio/MCTD	$2w 4.648 0 Td(-a4.489874 -07,MC /	

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Note 9: Pension Plan

Kansas Public Employees Retirement System Plan

Plan Description

The Kansas Public Employees Retirement System Plan is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74, Article 49: Kansas Public Employees Retirement System (KPERS), Kansas Police and Fire Retirement System and Kansas Retirement System for Judges. All employees in a qualified KPERS position must participate in the plan.

The KPERS plan is a cost-sharing, multi-employer, defined benefit plan. KPERS is intended to be a qualified retirement plan under Section 401(a) of the Code. Information relating to KPERS, including stand-alone financial statements, is available by writing to KPERS, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869 or accessing the internet at www.KPERS.org.

Benefits Provided

Retirement benefits for employees are calculated based on the credited service, final average salary and a statutory multiplier. KPERS has three levels of benefits depending on hire date, retirement age and years of credited service. Tier 1 benefits are for members hired before July 1, 2009, who are age 65 or age of 62 with 10 years of credited service or of any age when combined age and years of credited service equal 85 "points." Tier 2 benefits are for members hired between July 1, 2009 and December 31, 2014, who are age 65 with five years of credited service or age 60 with 30 years of credited service. Tier 3 benefits are for members who were hired on or after January 1, 2015, and are age 65 with five years credited service or are age 60 with 30 years of credited service. Tier 1 members receive a participating service credit of 1.75% of the final average salary for years of service prior to January 1, 2014. Participating service credit is 1.85% of final average salary for years of service after December 31, 2013. Tier 2 members retiring on or after January 1, 2012, participating service credit is 1.85% for all years of service. Tier 3 members earn retirement credits between 3% of pay to 5% of pay depending on length of service at retirement.

For Tier 1 participants, early retirement is permitted at the age of 55 and 10 years of credited service. Benefits are reduced by 0.2% per month for each month between the ages of 60-62, plus 0.6% for each month between the ages of 55 and 60 for Tier 1 members. For Tier 2 members, benefits are reduced actuarially for each early commencement. The reduction factor is 35% at the age of 60 and 57.5% at age 55. If the member has 30 years of credited service, the early retirement reduction is less (50% of regular reduction). Tier 3 participants can retire at age 60 with 30 years of service, at age 65 with five years of service or at age 55 with at least 10 years of service but receiving a reduced benefit. All three plans provide disability and death benefits to plan members and their beneficiaries.

Contributions

The law governing KPERS requires an actuary to make an annual valuation of the liabilities and reserves and a determination of the contributions required to discharge the KPERS liabilities. The actuary then recommends to the KPERS Board of Trustees the state wide employer-contribution rates required to maintain the three systems on the actuarial reserve basis. Prior to January 1, 2014, Tier 1 participants were required to contribute 4.0% of their annual pay. Effective January 1, 2014, the rate was raised to 5.0% with an increase in the benefit multiplier to 1.85% beginning January 1, 2014, for future years of service only. Tier 2 participants are required to contribute 6% of compensation. The State of Kansas is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2016, was 11.91% of annual payroll for the period of July 1, 2015 through December 31, 2015. The rate for the year ended June 30, 2015, was 11.12% of annual payroll for the period from July 1, 2014 through December 31, 2014, and 9.5% for the period from January 1, 2015 through June 30, 2015. The State of Kansas contribution, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. In accordance with this special funding situation, the State of Kansas' contributions to the plan for College employees for the years ended June 30, 2016 and 2015, were $1,170,002 and $995,336, respectively, which equaled 100% of the required contributions.

Pension Liabilities and Pension Expense

At June 30, 2016 and 2015, the College reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the College. The amount recognized by the College as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the College were as follows:

	2016	2015
College's proportionate share of the net pension liability	$ -	$ -
State's proportionate share of the net pension liability attributed to the College	15,042,004	14,012,478
	$ 15,042,004	$ 14,012,478

The net pension liability at June 30, 2016 and 2015, was measured at June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2014 and 2013, respectively, which were rolled forward to June 30, 2015 and 2014, respectively. As a result of the special funding situation provided by the State of Kansas to technical colleges as defined under K.S.A. 74-4931 (2) and (3), at June 30, 2016 and 2015, the College's proportion of the net pension liability was 0%, and the College is not required to record the pension liability.

For the years ended June 30, 2016 and 2015, the College recognized pension expense and revenue of $1,170,002 and $995,336, respectively, for support provided by the State.

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Actuarial Assumptions

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

Inflation	3%
Salary increases	4% to 16%, including inflation (4% to 10.5%, including inflation for 2013)
Investment rate of return	8%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Healthy Annuitant table, as appropriate with adjustments for mortality improvements based on Scale AA. The total pensionumr /0.0002Pnts7The t5sfs.5 (s)1.9 D

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Discount Rate

The discount rate used to measure the total pension liability was 8% for the years ended December 31, 2014 and 2013. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the contractually required rate. Participating employer contributions do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by KPERS' Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. 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 plan members. 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.

Pension Plan Fiduciary Net Position

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

Note 10: Early Retirement Program

At the discretion of the Board of Trustees, the College offered a voluntary early retirement program to eligible employees who have been employed by the College in a permanent position for 15 or more years, are at least age 50 when they retire and have an effective hire date prior to July 1, 1996. Benefits at attaining age 60 are based on the retiree's final average salary used by KPERS, a 1.4% multiplier for all years of participating service credit with KPERS, and the total number of years of credited KPERS service (excluding any purchased or repurchased years), paid in not more than 60 monthly payments. The benefits also include an amount equal to the amount of the social security benefit the retiree would have been eligible to receive if the employee were age 62, paid in not more than 24 monthly payments. This benefit will be reduced by 5% for each year by which the employee's years of qualified service are less than 20.

The College records a liability for future payments once an eligible employee formally elects to participate in the program. The expected cash flows to provide this benefit to the employee are discounted and recorded as a liability and expense in the year the election is made. The amount of this liability at June 30, 2016 and 2015, totaled $225,902 and $335,702, respectively. The current portion of the liability totaling $81,047 and $119,072 at June 30, 2016 and 2015, respectively, is included in accrued wages and related liabilities in the accompanying balance sheets.

During the year ended June 30, 2011, the Board of Trustees voted to abolish the early retirement program effective July 15, 2011. All eligible employees had until that date to formally elect to participate. There is no change to benefits for those employees who are currently participating.

Note 11: Defined Contribution Pension Plan

The College has a defined contribution section 457 pension plan covering substantially all employees. There were no employer contributions during 2016 and 2015.

Note 12: Commitments and Contingencies

Claims and Litigation

The College is currently involved in various claims and pending legal actions related to matters arising from the ordinary conduct of business. The College administration believes the ultimate disposition of the actions will not have a material effect on the financial statements of the College.

Government Grants

The College is currently participating in several grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

Purchase Agreement

During 2010, the College entered into a five-year purchase agreement with a vendor ending December 31, 2015. The College is required to purchase $1,000,000 of classroom equipment and instructional supplies during the five-year period. This payment is reduced based on a percentage of student and College purchases from this vendor. As of January 5, 2015, the remaining balance on this commitment was $32,821.

Effective January 6, 2015, this agreement was renegotiated and extended to January 5, 2018. The College is required to purchase $182,821 (including the remaining balance on the previous agreement) of classroom equipment and instructional supplies during the new three-year period.

Note 13: Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Required Supplementary Information

Wichita Area Technical College
Schedule of College's Proportionate Share of the Net Pension Liability
Kansas Public Employees Retirement System Plan
Last Ten Fiscal Years

	2015	2014
College's proportion of the net pension liability	0.00%	0.00%
College's proportionate share of the net pension liability	$ -	$ -
State's proportionate share of the net pension liability associated with the College	15,042,004	14,012,478
Total	$ 15,042,004	$ 14,012,478
College's covered-employee payroll during the measurement period	$ 11,376,951	$ 11,191,309
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	64.95%	66.60%

Note to Schedule: This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

Wichita Area Technical College

Notes to Required Supplementary Information

June 30, 2016

Changes of Benefit and Funding Terms: The following changes to the plan provisions were reflected in the valuation performed as of January 1 listed below:

Effective January 1, 2014, KPERS Tier I members' employee contribution rate increased to 5.0% and had a benefit multiplier of 1.85% for years of service after December 31, 2013. Tier II members are required to contribute 6%. For Tier II members retiring after January 1, 2012, the cost of living adjustment was eliminated, but they continue to receive a 1.85% multiplier for all years of service. Tier III members are required to contribute 6% and receive a service credit between 3%-5% depending on length of service at retirement.