

LEGISLATIVE AUDITOR
STATE OF LOUISIANA



—————SOWELA TECHNICAL COMMUNITY COLLEGE—————
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT
ISSUED FEBRUARY 2, 2005

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870
www.la.state.la.us

January 14, 2005

Independent Auditor's Report
on the Financial Statements

SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA
Lake Charles, Louisiana

We have audited the accompanying basic financial statements of Sowela Technical Community College, a college within the Louisiana Community and Technical College System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of Sowela Technical Community College's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1-B, the accompanying financial statements of Sowela Technical Community College are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the Louisiana Community and Technical College System that is attributable to the transactions of Sowela Technical Community College. They do not purport to, and do not, present fairly the financial position of the Louisiana Community and Technical College System or the State of Louisiana as of June 30, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

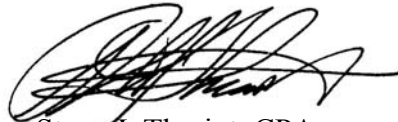
In our opinion, the basic financial statements referred to previously present fairly, in all material respects, the financial position of Sowela Technical Community College as of June 30, 2004, and

the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2005, on our consideration of Sowela Technical Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

DLC:EFS:PEP:ss

[STCC04]

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis section of Sowela Technical Community College's (College) financial report presents a narrative overview and analysis of the College's financial activities for the year ended June 30, 2004. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the College's financial statements and footnotes, which begin on page 13.

FINANCIAL HIGHLIGHTS

The College's net assets overall decreased from \$2,930,132 to \$2,792,446 or 4.7% from June 30, 2003, to June 30, 2004. The overall reasons for this change included an increase in accumulated depreciation and disposal of equipment.

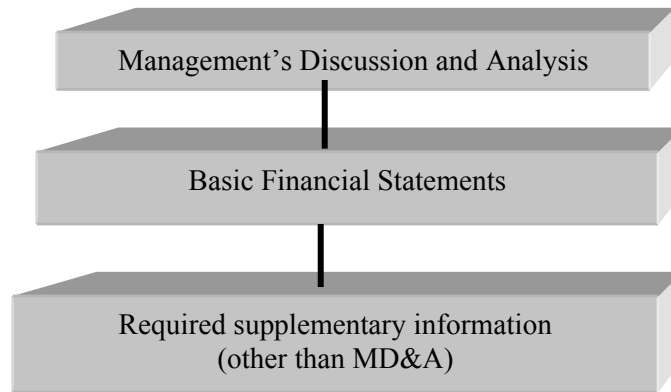
Enrollment changed from 2,936 to 2,558 from June 30, 2003, to June 30, 2004, a change of 12.9%. The reason for this change is attributed to the completion of specialized training courses in the prior year.

The College's operating revenues increased from \$2,745,012 to \$3,455,245 or 25.9% from June 30, 2003, to June 30, 2004. Operating expenses, however, only increased by 5.7% to \$9,922,095 for the year ended June 30, 2004. The assessment of an Academic Excellence fee and a concentrated effort to reduce training costs are the primary reasons for these changes.

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations. The change to \$6,305,045 in 2004 from \$6,020,095 in 2003 is attributed to an increase in state operating appropriations.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Special Purpose Governments Engaged in Business-Type Activities established by Governmental Accounting Standards Board Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.



These financial statements consist of two sections: Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

Basic Financial Statements

The basic financial statements present information for the College as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets (page 13) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the College is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets (pages 15 and 16) presents information showing how the College's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows (pages 17 and 18) presents information showing how the College's cash changed as a result of current year operations. The Statement of Cash Flows is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

The financial statements provide both long-term and short-term information about the College's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The College's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the College are included in the Statement of Net Assets.

FINANCIAL ANALYSIS

Statement of Net Assets
June 30, 2004 and 2003
(in thousands)

	Total	
	<u>2004</u>	<u>2003</u>
Assets		
Current and other assets	\$756	\$739
Capital assets	3,091	3,263
Total assets	<u>3,847</u>	<u>4,002</u>
Liabilities		
Current liabilities	454	476
Compensated absences payable	601	596
Total liabilities	<u>1,055</u>	<u>1,072</u>
Net assets		
Invested in capital assets	3,091	3,263
Restricted - expendable	56	53
Unrestricted (deficit)	<u>(355)</u>	<u>(386)</u>
Total net assets	<u>\$2,792</u>	<u>\$2,930</u>

This schedule is prepared from the College's Statement of Net Assets as shown on page 13, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Net assets invested in capital assets consist of capital assets net of accumulated depreciation. Restricted - expendable net assets consist of resources that the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. Conversely, unrestricted net assets are resources to be used for the educational and general operations of the College.

Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2004 and 2003
(in thousands)

	<u>2004</u>	<u>2003</u>
Operating Revenues		
Student tuition and fees, net	\$906	\$383
Grants and contracts	2,159	2,112
Sales and services of educational departments	72	45
Other	318	205
Total operating revenues	<u>3,455</u>	<u>2,745</u>
Operating Expenses		
Education and general:		
Instruction	5,288	5,193
Academic support	241	310
Student services	487	316
Institutional support	1,671	1,343
Operations and maintenance of plant	714	655
Depreciation	298	249
Scholarships and fellowships	1,223	1,290
Other operating expenses		31
Total operating expenses	<u>9,922</u>	<u>9,387</u>
Operating loss	<u>(6,467)</u>	<u>(6,642)</u>
Nonoperating Revenues		
State appropriations	6,249	5,993
Other nonoperating revenues, net	56	27
Net nonoperating revenues	<u>6,305</u>	<u>6,020</u>
Loss before other revenues, expenses, gains, and losses	(162)	(622)
Capital appropriations	24	
Change in Net Assets	<u>(138)</u>	<u>(622)</u>
Net assets at beginning of year, restated	<u>2,930</u>	<u>3,552</u>
Net assets at end of year	<u><u>\$2,792</u></u>	<u><u>\$2,930</u></u>

Nonoperating revenues (expenses) increased by 4.7% to \$6,305,045, primarily attributable to an increase in the state operating appropriation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

State appropriations increased from \$5,992,786 to \$6,249,401 because of an increase in budget primarily to cover merit increases in salaries and increases in related benefits.

The College's total revenues increased by \$1,019,302 or 11.6 %.

STATEMENT OF CASH FLOWS

Another way to assess the financial health of the College is to look at the Statement of Cash Flows. The Statement of Cash Flows assists readers of this statement to assess:

- The ability to generate future cash flows
- The ability to meet obligations as they come due
- A need for external financing

Statement of Cash Flows
For the Years Ended June 30, 2004 and 2003
(in thousands)

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents provided (used) by:		
Operating activities	(\$6,062)	(\$6,379)
Noncapital financing activities	6,225	6,008
Capital financing activities	(102)	(242)
Investing activities	<u> </u>	<u> 1</u>
Net increase (decrease) in cash and cash equivalents	61	(612)
Cash and cash equivalents at beginning of year	<u>(95)</u>	<u>517</u>
Cash and cash equivalents at end of year	<u><u>(\$34)</u></u>	<u><u>(\$95)</u></u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2004, the College had invested approximately \$3,091,239 in capital assets, net of accumulated depreciation. This amount represents a net decrease (including additions and disposals, net of depreciation) of approximately \$172,045 or 5.3% over the previous fiscal year.

**Capital Assets at Year-end
June 30, 2004 and 2003
(Net of depreciation, in thousands)**

	2004	2003
Land	\$77	\$77
Buildings	2,526	2,678
Equipment	488	508
Total	\$3,091	\$3,263

Additions to capital assets during the current year totaled \$126,252 and disposals totaled \$87,833.

Debt

The College had no bonds and notes outstanding at year-end.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The following currently known facts, decisions, or conditions are expected to have a significant effect on financial position or results of operations.

Sowela Technical Community College was created in 1938 by the Louisiana Legislature as the Southwest Louisiana Trade School. The institution was incorporated as a member of the Louisiana Community and Technical College System in 1999 at the time of the creation of the system.

The mission of the College is to provide a lifelong learning and teaching environment designed to afford every student an equal opportunity to develop to his/her full potential. The College is a public comprehensive technical community college offering programs including associate degrees, diplomas, and technical certificates as well as noncredit courses. The College is committed to accessible and affordable quality education, relevant training, and retraining by providing post-secondary academic and technical education to meet the educational advancement and workforce development needs of the community.

In 2001, the Board of Regents adopted a new Master Plan for post-secondary education to be implemented in 2005. As part of the Master Plan, four-year institutions will adopt more selective admissions policies that require higher ACT and SAT scores along with other criteria than are currently required. Community colleges will be exempt from this requirement. Predictions from the Board of Regents indicate a substantial increase in enrollment at community colleges because of these policies.

CONTACTING THE COLLEGE'S MANAGEMENT

This financial report is designed to provide our residents, taxpayers, customers, and investors and creditors with a general overview of the College's finances and to show the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Finance, Sonya Lacasse at Sowela Technical Community College, Post Office Box 16950, Lake Charles, Louisiana 70616, telephone number (337) 491-2134.

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**SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**

**Statement of Net Assets
June 30, 2004**

ASSETS

Current assets:

Cash and cash equivalents (note 2)	\$40,023
Receivables, net (note 3)	393,410
Due from state treasury	89,620
Due from federal government	197,594
Inventories	10,145
Deferred charges and prepaid expenses	11,729
Other current assets	13,091
Total current assets	<u>755,612</u>

Noncurrent assets -

capital assets, net (note 4)	<u>3,091,239</u>
Total assets	<u><u>3,846,851</u></u>

LIABILITIES

Current liabilities:

Cash overdraft (note 2)	73,987
Accounts payable and accruals (note 5)	234,281
Deferred revenues	102,287
Amount held in custody for others	11,995
Compensated absences payable (note 10)	31,064
Total current liabilities	<u>453,614</u>

Noncurrent liabilities -

compensated absences payable (note 10)	<u>600,791</u>
Total liabilities	<u><u>1,054,405</u></u>

NET ASSETS

Invested in capital assets	3,091,239
Restricted - expendable (note 12)	56,434
Unrestricted (deficit) (note 12)	<u>(355,227)</u>
Total net assets	<u><u>\$2,792,446</u></u>

The accompanying notes are an integral part of this statement.

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**SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA****Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004****OPERATING REVENUES**

Student tuition and fees (net of scholarship allowances of \$229,035)	\$905,777
Federal grants and contracts	1,640,910
State and local grants and contracts	518,056
Sales and services of educational departments	72,457
Other operating revenues	318,045
Total operating revenues	<u>3,455,245</u>

OPERATING EXPENSES

Educational and general:	
Instruction	5,288,467
Academic support	241,154
Student services	487,081
Institutional support	1,670,431
Operations and maintenance of plant	713,914
Depreciation	298,297
Scholarships and fellowships	1,222,751
Total operating expenses	<u>9,922,095</u>

OPERATING LOSS (6,466,850)

NONOPERATING REVENUES (EXPENSES)

State appropriations	6,249,401
Gifts	55,216
Investment income, net	428
Net nonoperating revenues	<u>6,305,045</u>

(Continued)

The accompanying notes are an integral part of this statement.

**SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses, and
Changes in Net Assets, 2004**

LOSS BEFORE CAPITAL APPROPRIATIONS	(\$161,805)
Capital appropriations	<u>24,119</u>
CHANGE IN NET ASSETS	(137,686)
NET ASSETS - BEGINNING OF YEAR, restated (note 13)	<u>2,930,132</u>
NET ASSETS - END OF YEAR	<u><u>\$2,792,446</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$943,783
Grants and contracts	2,238,934
Payments to suppliers	(1,599,876)
Payments for utilities	(305,401)
Payments to employees	(5,223,853)
Payments for benefits	(1,250,384)
Payments for scholarships and fellowships	(1,222,751)
Sales and services of educational departments	72,457
Other receipts	284,598
Net cash (used) by operating activities	<u>(6,062,493)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	6,172,568
Gifts and grants for other than capital purposes	55,216
TOPS receipts	23,009
TOPS disbursements	(23,009)
Other	(2,208)
Net cash provided by noncapital financing sources	<u>6,225,576</u>

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Purchases of capital assets	(102,133)
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest revenue, net	<u>428</u>
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NET INCREASE IN CASH 61,378

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (95,342)

CASH AND CASH EQUIVALENTS AT END OF YEAR (\$33,964)

(Continued)

The accompanying notes are an integral part of this statement.

**SOWELA TECHNICAL AND COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2004**

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:**

Operating loss	(\$6,466,850)
Adjustments to reconcile operating loss to net cash (used) by operating activities:	
Depreciation expense	298,297
Changes in assets and liabilities:	
Decrease in accounts receivable	48,312
Decrease in inventories	10,203
Decrease in prepaid expenses	1,791
Increase in accounts payable	11,118
Increase in deferred revenue	36,215
(Decrease) in compensated absences	<u>(1,579)</u>
Net cash (used) by operating activities	<u><u>(\$6,062,493)</u></u>

Noncash, Capital Financing Transactions

The college provided noncash scholarships.	\$229,035
The college received capital appropriations.	24,119

(Concluded)

The accompanying notes are an integral part of this statement.

INTRODUCTION

Sowela Technical Community College (college) is a publicly supported state mandated institution of higher education. The college is a part of the Louisiana Community and Technical College System, which is a component unit of the State of Louisiana, within the executive branch of government. The college is under the management and supervision of the Board of Supervisors of the Louisiana Community and Technical College System; however, the annual budget of the college and changes to the degree programs, departments of instruction, et cetera, require the approval of the Louisiana Board of Regents of Higher Education. As a state college, operations of the college's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

The college is located at 3820 Senator J. Bennett Johnston Avenue, Lake Charles, Louisiana. The college offers associate of technology degrees in the areas of accounting, aviation maintenance, commercial art, computer applications development, computer operations, computer programmer, computer networking, criminal justice, drafting and design, industrial electronics, industrial instrumentation, and office systems technology, and an associate of applied science degree in process technology. Student enrollment was 1675, 1568 and 1022 during the fall, spring, and summer semesters, respectively, of the 2003-2004 fiscal year. The college had approximately 109 full-time faculty and staff and 48 part-time instructors for the 2003-2004 fiscal year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The accompanying financial statements have been prepared in accordance with such principles.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The college is part of the Louisiana Community and Technical College System, which is considered to be a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state appropriations provide the largest percentage of total revenues; (4) the state issues bonds to finance certain construction; and (5) the college primarily serves state residents. The accompanying financial statements present information only as to the transactions of the programs of Sowela Technical Community College as authorized by Louisiana statutes and administrative regulations.

The State of Louisiana issues a comprehensive annual financial report, which includes the activity contained in the accompanying financial statements within the Louisiana Community and Technical College System amounts. The Louisiana Legislative Auditor audits the basic financial statements of the system and of the state.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the college is considered a special-purpose government engaged only in business-type activities and accounted for in a single proprietary (enterprise) fund. Accordingly, the college's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-college transactions have been eliminated.

The college applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The college does not apply FASB pronouncements issued after November 30, 1989.

D. BUDGET PRACTICES

The State of Louisiana's appropriation to the college is an annual lapsing appropriation established by legislative action and by Title 39 of the Louisiana Revised Statutes. The statute requires that the budget be approved by the Board of Regents for Higher Education and certain legislative and executive agencies of state government. Budget revisions are granted by the Joint Legislative Committee on the Budget. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; and (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are not prorated but are recognized in the succeeding year. A formal budgetary comparison is not required by GASB reporting standards for propriety funds; therefore, budgetary comparisons are not presented.

The budget amounts for fiscal year 2003-2004 include the original approved budget and subsequent amendments approved as follows:

Original approved budget	\$7,643,103
Amendments - state General Fund increases	<u>79,257</u>
Final budget	<u><u>\$7,722,360</u></u>

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, interest-bearing demand deposits, and a certificate of deposit. Under state law, the college may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the college may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

F. INVENTORY

Inventories are valued at the lower of cost or market on the weighted-average basis. The college accounts for its inventories using the consumption method.

G. CAPITAL ASSETS

The college follows the capitalization policies established by the Louisiana Division of Administration, Office of Statewide Reporting and Accounting Policy. Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. Construction in progress and related debt interest costs are capitalized during construction. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

The capitalization policy includes all movable property items with a unit cost of \$5,000 or more and an estimated useful life greater than one year and all buildings with an original cost of \$100,000 or more. In addition, library collections with a total acquisition cost of less than \$5,000,000 are not capitalized and depreciated.

Depreciation is computed assuming no salvage value and using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and 5 to 10 years for movable property. GASB Statement No. 34 requires the recognition of depreciation on capital assets, resulting in the recognition of accumulated depreciation for current and prior years.

H. DEFERRED REVENUES

Deferred revenues include amounts received or owed for tuition and fees prior to the end of the fiscal year but are related to the subsequent accounting period.

I. NONCURRENT LIABILITIES

Noncurrent liabilities include estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

J. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. The leave is accumulated without limitation; however, nine-month faculty members do not accrue annual leave but are granted faculty leave during holiday periods when students are not in classes. Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned.

Upon separation of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and non-classified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave that would otherwise have been used to compute years of service for retirement. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

Upon termination or transfer, a classified employee will be paid for any time and one-half compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the employee's hourly rate of pay at termination or transfer.

K. NET ASSETS

Net assets comprise the various net earnings from operation, nonoperating revenues, expenses, and contributions of capital. Net assets are classified in the following components:

- (a) Invested in capital assets represents the college's total investment in capital assets, net of accumulated depreciation. The college does not have any outstanding debt obligations related to acquisition, construction, or improvement of these capital assets.
- (b) Restricted net assets - expendable include resources that the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- (c) Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college and may be used at the discretion of the governing board to meet current expenses and for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the college's policy is to first apply the expense toward unrestricted resources and then toward restricted resources.

L. CLASSIFICATION OF REVENUES

The college has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- (a) Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; and (3) most federal, state, and local grants and contracts.
- (b) Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and state appropriations.

M. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for services (tuition and fees) provided by the college and the amount that is paid by students and/or third parties making payments on the students' behalf.

2. CASH AND CASH EQUIVALENTS

At June 30, 2004, the college has cash and cash equivalents (book balances) totaling (\$33,964) as follows:

Petty cash	\$400
Certificate of deposit	39,623
Demand deposits	<u>(73,987)</u>
Total	<u><u>(\$33,964)</u></u>

The certificate of deposit is fully insured by the Federal Deposit Insurance Corporation.

These cash and cash equivalents are reported as follows on the Statement of Net Assets:

Current assets - cash and cash equivalent	\$40,023
Current liabilities - cash overdraft	<u>(73,987)</u>
Total	<u><u>(\$33,964)</u></u>

3. RECEIVABLES

Receivables are shown on Statement A net of an allowance for doubtful accounts and are composed of the following accounts:

<u>Type</u>	<u>Receivables</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Student tuition and fees	\$6,928	\$4,147	\$2,781
Federal, state, and private grants and contracts	344,863		344,863
Other	<u>54,900</u>	<u>9,134</u>	<u>45,766</u>
Total	<u><u>\$406,691</u></u>	<u><u>\$13,281</u></u>	<u><u>\$393,410</u></u>

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

NOTES TO THE FINANCIAL STATEMENTS

	Balance June 30, 2003	Prior Period Adjustment	Adjusted Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Capital assets not being depreciated:						
Land	\$76,625	NONE	\$76,625	NONE	NONE	\$76,625
Capital assets, being depreciated:						
Buildings	6,243,320		6,243,320			6,243,320
Furniture, fixtures, and equipment	2,413,248		2,413,248	\$126,252	(\$87,833)	2,451,667
Total capital assets, being depreciated	8,656,568	NONE	8,656,568	126,252	(87,833)	8,694,987
Less accumulated depreciation for:						
Buildings	(3,564,976)		(3,564,976)	(152,463)		(3,717,439)
Furniture, fixtures, and equipment	(2,010,916)	\$105,983	(1,904,933)	(145,834)	87,833	(1,962,934)
Total accumulated depreciation	(5,575,892)	105,983	(5,469,909)	(298,297)	87,833	(5,680,373)
Total capital assets, being depreciated, net	3,080,676	105,983	3,186,659	(172,045)	NONE	3,014,614
Capital assets, net	\$3,157,301	\$105,983	\$3,263,284	(\$172,045)	NONE	\$3,091,239

The June 30, 2003, balance of capital assets has been adjusted by \$105,983 to reflect prior period adjustments resulting from the correction of prior year errors.

5. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable and accruals at June 30, 2004, are as follows:

Vendors	\$61,400
Salaries and benefits	172,140
Other payables	741
	<u>741</u>
Total	<u>\$234,281</u>

6. PENSION PLANS

Plan Description. Substantially all employees of the college are members of two statewide, public employee retirement systems. Academic employees are generally members of the Louisiana Teachers Retirement System (TRS), and classified/unclassified state employees are generally members of the Louisiana State Employees Retirement System (LASERS). TRS is a cost-sharing, multiple-employer defined benefit pension plan and LASERS is considered a single-employer plan because the material portion of its activity is with one employer--the State of Louisiana. TRS and LASERS provide retirement, disability, and survivors' benefits to plan

members and beneficiaries and are administered by separate boards of trustees. Benefits granted by the retirement systems are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems, with employee benefits vesting after 5 and 10 years of service in the TRS and LASERS, respectively. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446 and/or the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of plan members and the college are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8% (TRS) and 7.5% (LASERS) of covered salaries. The state is required to contribute 13.8% of covered salaries to TRS and 15.8% of covered salaries to LASERS for fiscal year 2004. The college's employer contribution is funded by the State of Louisiana through the annual appropriation to the college. The college's employer contributions to TRS for the years ended June 30, 2004, 2003, and 2002, were \$481,155, \$432,057, and \$395,733, respectively, and to LASERS for the years ended June 30, 2004, 2003, and 2002, were \$143,315, \$109,910, and \$89,423, respectively, equal to the required contributions for each year.

7. OPTIONAL RETIREMENT SYSTEM

R.S. 11:921 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This program, which is administered by TRS, was designed to aid colleges in recruiting employees who may not be expected to remain in TRS for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

The optional retirement plan is a defined contribution plan that provides for full and immediate vesting of all contributions remitted to the participating companies on behalf of the participants. Eligible employees make an irrevocable election to participate in the optional retirement plan rather than the TRS and purchase retirement and death benefits through contracts provided by designated companies.

Total contributions by the college were 13.8% of the covered payroll for fiscal year 2004. The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRS pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial committee. The TRS retains the balance of the employer contribution for application to the unfunded accrued liability

of the system. Benefits payable to participants are not the obligation of the State of Louisiana or the TRS. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled \$15,632 and \$9,352, respectively, for the year ended June 30, 2004.

8. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The college provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the college's employees become eligible for these benefits if they reach normal retirement age while working for the college. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and the college. The college recognizes the cost of providing these benefits to retirees (college's portion of premiums) as an expense when paid during the year. The cost of providing benefits for the 44 retirees totaled \$179,271 for the year ended June 30, 2004.

9. CONTINGENT LIABILITIES

Obligations and losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by General Fund appropriation. The college is not involved in any lawsuits at June 30, 2004.

10. COMPENSATED ABSENCES

At June 30, 2004, employees of the college have accumulated and vested annual, sick and compensatory leave benefits of \$388,391, \$242,885 and \$579, respectively, which were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements. The following is a schedule of changes in the liability associated with compensated absences:

Balance as of July 1, 2003	\$633,433
Additions	19,424
Reductions	<u>(21,002)</u>
 Balance as of June 30, 2004	 <u><u>\$631,855</u></u>
 Amounts due within one year	 <u><u>\$31,064</u></u>

11. OPERATING LEASES

For the year ended June 30, 2004, the total rental expense for all operating leases is \$53,756. The college has no capital leases.

12. NET ASSETS

The college had \$56,434 in restricted expendable net assets for scholarships, as of June 30, 2004.

The unrestricted net asset deficit of (\$355,227) resulted from the liability for compensated absences, which will be paid in future years from state appropriations to the college.

13. RESTATEMENT OF BEGINNING NET ASSETS

Beginning net assets has been restated to reflect the following corrections:

Net Assets at June 30, 2003	\$2,921,482
Correction of prior year:	
Cash and cash equivalents	39,195
Revenues/Receivables	(73,951)
Deferred charges	(62,577)
Capital assets	<u>105,983</u>
Net Assets at July 1, 2003, as restated	<u><u>\$2,930,132</u></u>

14. DEFERRED COMPENSATION PLAN

Certain employees of Sowela Technical Community College participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

15. FOUNDATION

The accompanying financial statements do not include the accounts of the Sowela Technical Community College Foundation, Incorporated. This foundation is a separate corporation whose financial statements are subject to audit by independent certified public accountants.

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on internal control over financial reporting and on compliance with laws and regulations and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters and other matters that would be material to the presented financial statements.



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870
www.lla.state.la.us

January 14, 2005

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Basic Financial Statements
Performed in Accordance With *Government Auditing Standards*

**SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**

Lake Charles, Louisiana

We have audited the basic financial statements of Sowela Technical Community College, a college within the Louisiana Community and Technical College System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 14, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sowela Technical Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sowela Technical Community College's basic financial statements are free of 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*.

This report is intended solely for the information and use of Sowela Technical Community College and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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