

**SOWELA TECHNICAL COMMUNITY COLLEGE
FOUNDATION**

ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2018

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

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J. WALKER & COMPANY^{APC}

ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Sowela Technical Community College Foundation
Lake Charles, Louisiana

We have audited the accompanying financial statements of Sowela Technical Community College Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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. 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 Sowela Technical Community College Foundation as of December 31, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Report on Compliance with the Affiliation Agreement with Sowela Technical Community College

In accordance with attestation standards established by the *American Institute of Certified Public Accountants*, we have also issued our report dated April 30, 2021, on our examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. The purpose of that 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 Foundation's internal control or on compliance. That 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, that communication is not suitable for any other purpose. However, under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

J. Walker & Company, APC

Lake Charles, Louisiana
April 30, 2021



BASIC FINANCIAL STATEMENTS

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

Statement of Financial Position
December 31, 2018

ASSETS

Current Assets:

Cash and cash equivalents, unrestricted	\$ 293,782
Accounts receivable, net	544,697
Unconditional pledges receivable, net	<u>1,107,750</u>
Total Current Assets	<u>1,946,229</u>

Noncurrent Assets:

Cash and cash equivalents, restricted	2,503,398
Investments	939,960
Property and equipment, net:	<u>3,493</u>
Total Noncurrent Assets	<u>3,446,851</u>
Total Assets	<u>\$ 5,393,080</u>

LIABILITIES AND NET ASSETS

Liabilities:

Current Liabilities

Accounts payable	\$ 2,530
Due to affiliate	<u>679,218</u>
Total Current Liabilities	<u>681,748</u>

Long-Term Liabilities

Amounts held in custody for others	<u>792,001</u>
Total Long-Term Liabilities	<u>792,001</u>

Total Liabilities

1,473,749

Net Assets:

Without donor restrictions	287,860
With donor restrictions	<u>3,631,471</u>

Total Net Assets

3,919,331

Total Liabilities and Net Assets

\$ 5,393,080

The accompanying notes are an integral part of the financial statements

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

**Statement of Activities
For the Year Ended December 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Support			
Contributions	\$ 8,576	\$ 3,603,713	\$ 3,612,289
Donation of professional services	131,444	-	131,444
Miscellaneous revenue	14,550	-	14,550
Interest income	2,432	157	2,589
Investment income, net of expenses	-	3,051	3,051
Net realized & unrealized gains & losses	-	(5,703)	(5,703)
Total Revenue and Support	<u>157,002</u>	<u>3,601,218</u>	<u>3,758,220</u>
 Net Assets Released from Restrictions	 1,398,173	 (1,398,173)	 -
 Functional Expenses:			
Program services	1,390,253	-	1,390,253
Supporting services	<u>166,640</u>	<u>-</u>	<u>166,640</u>
Total Functional Expense	<u>1,556,893</u>	<u>-</u>	<u>1,556,893</u>
 Change in Net Assets	 (1,718)	 2,203,045	 2,201,327
 Net Assets at Beginning of Year (as restated)	 <u>289,578</u>	 <u>1,428,426</u>	 <u>1,718,004</u>
 Net Assets at End of Year	 <u>\$ 287,860</u>	 <u>\$ 3,631,471</u>	 <u>\$ 3,919,331</u>

The accompanying notes are an integral part of the financial statements

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

**Statement of Cash Flows
For the Year Ended December 31, 2018**

Cash flows from operating activities:	
Cash donations received	\$ 1,054,663
Interest received	2,590
Other receipts	14,550
Payments for scholarships	(369,894)
Payments for general college support	(9,034)
Payments for grants to community college	(596,628)
Cash paid for supplies and services	<u>(107,089)</u>
Net cash provided by (used in) operating activities	<u>(10,842)</u>
 Cash flows from investing activities:	
Purchases of investments	(227,917)
Proceeds from sales and maturities of investments	<u>4,957</u>
Net cash provided by (used in) investing activities	<u>(222,960)</u>
 Cash flows from financing activities:	
Contributions restricted for endowments	150,457
Increase in amounts held in custody for others	<u>126,454</u>
Net cash provided by (used in) financing activities	<u>276,911</u>
Net increase (decrease) in cash and cash equivalents	43,109
Cash and cash equivalents, beginning of year	<u>2,754,071</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,797,180</u></u>
 Reconciliation of changes in net assets to cash provided by (used in) operating activities	
Increase in net assets	\$ 2,201,327
Depreciation	3,493
Net realized & unrealized gain/loss on investment	5,703
Investment income, net of expenses	(3,051)
Contributions restricted for endowments	(150,456)
Increase in receivables	(1,372,642)
Decrease in deferred revenues	(1,034,527)
Increase to amounts held in custody	100,215
Increase in accounts payable	2,198
Increase in due to affiliate	<u>236,898</u>
Cash provided by (used in) operating activities	<u><u>\$ (10,842)</u></u>

The accompanying notes are an integral part of the financial statements

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

**Statement of Functional Expenses
For the Year Ended December 31, 2018**

	Supporting Services			Total Expenses
	Program Services	Management and General	Fund Raising	
Administrative expenses	-	472	1,352	1,824
Advertising & promotions	-	-	5,857	5,857
Board meeting expenses	-	2,362	-	2,362
Depreciation	-	3,493	-	3,493
General college support	9,033	-	-	9,033
Grants to community college - academic scholarships	415,333	-	-	415,333
Grants to community college - academic programs	788,087	-	-	788,087
Legal & professional services	-	11,700	-	11,700
Professional services & supplies - donated	-	131,444	-	131,444
Software maintenance	-	2,593	-	2,593
Supplies	-	55	7,312	7,367
Transfer to college - Board of Regents match, donor portion	177,800	-	-	177,800
Total Functional Expenses	<u>\$ 1,390,253</u>	<u>\$ 152,119</u>	<u>\$ 14,521</u>	<u>\$ 1,556,893</u>

The accompanying notes are an integral part of the financial statements

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

Notes to the Financial Statements For the Year Ended December 31, 2018

Note 1 – Nature of Activities and Significant Accounting Policies

Organization and Purpose

SOWELA Technical Community College Foundation (the Foundation) was organized on October 21, 1991 and is affiliated with SOWELA Technical Community College. The Foundation is a nonprofit organization incorporated under the laws of the State of Louisiana for the purpose of raising funds to support programs and activities designed to advance, promote, or otherwise benefit SOWELA Technical Community College. The Foundation is supported primarily through contributions from the community of Southwest Louisiana.

The Foundation is exempt from federal and state income taxes as a charitable organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, contributions to the Foundation are qualified as charitable donations.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The FASB has established the Accounting Standards Codification ("ASC") as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor restrictions. As of December 31, 2018, the Foundation had \$287,860 in net assets without donor restriction.

Net Assets with Donor Restrictions - Net assets that are contributions and endowment investment earnings subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of the Foundation and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. As of December 31, 2018, the Foundation's net assets with donor restrictions totaled \$3,631,471 and are restricted for funding professorships, scholarships, academic support and development, and institutional support programs specified by the donors.

Cash and Cash Equivalents

For accounting and reporting purposes, cash and cash equivalents include cash on hand, demand deposits, and all highly liquid investments with original maturities of three months or less. However, cash and cash equivalents that are required by donors to be maintained permanently are classified with restricted cash.

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

Notes to the Financial Statements (Continued) For the Year Ended December 31, 2018

Note 1 – Nature of Activities and Significant Accounting Policies (continued)

Endowment Investments

The Foundation maintains pooled investment accounts for the majority of its endowments. Investment income and realized and unrealized gains and losses, net of investment and management fees, from securities in the pooled investment accounts are allocated at least quarterly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts and are adjusted for additions to or deductions from those accounts.

Investments are stated at fair value as further discussed in Note 6. Investment returns include dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. In certain cases, investment managers report realized and unrealized gains and losses net of investment fees; accordingly, the Foundation has reported the net amount in unrealized and realized gains and losses in the accompanying statement of activities. Investment returns are reflected in the statement of activities as without donor restrictions or with donor restrictions based upon the existence and nature of any donor or legally imposed restrictions on those earnings. Under the Foundation's spending policy, spending cannot exceed appreciation and interest earned from the investments.

The board of directors has interpreted state law as requiring the preservation of original corpus of the permanent endowment funds unless explicit donor stipulations specify how net appreciation must be used. The long-term objective of the Foundation's investment policy is to preserve the purchasing power of the net assets and maintain an average annual total return at or above the level of spending and fees. In addition, the investment program is expected to exceed a composite benchmark index comprised of market indices weighted in proportion to an asset allocation policy. Adequate liquidity shall be maintained to provide distributions as stipulated in the endowment agreement.

Pledges Receivable

Unconditional promises to give are recognized as revenue in the period in which a written or oral agreement to contribute cash or other assets is received. An allowance for doubtful accounts is established based on the prior collection history of pledged contributions and management's analysis of specific promises made.

Conditional promises to give are not recognized until they become unconditional; that is, when the donor-imposed conditions are substantially met.

Contributions

Contributions are recognized when the donor makes a pledge to contribute to the Foundation that is, in substance, unconditional. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions that increases that net asset class. When a temporary restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

Property and Equipment

All acquisitions of property and equipment in excess of \$500 and all expenditures for repairs, maintenance, or improvements that significantly prolong the useful lives of the assets are capitalized.

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

Notes to the Financial Statements (Continued) For the Year Ended December 31, 2018

Note 1 – Nature of Activities and Significant Accounting Policies (continued)

Purchases of property and equipment are recorded at cost. Donations of property and equipment are recorded as support at fair value at the date of the gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by donor. The Foundation reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Property and equipment are depreciated using the straight-line method over the estimated useful life of assets. The class lives of the more significant items within each property classification are as follows:

Vehicles	5 years
Equipment	10 – 30 years
Furniture & Fixtures	15 – 30 years
Buildings	18 – 39 years

Compensated Absences

The Foundation relies on the donated services of the College's employees for any work that needs to be performed; therefore, there are no compensated absences to report.

Amounts Held in Custody for Others

The Foundation holds and invests certain funds, including state matching funds and unexpended earnings on these funds, on behalf of SOWELA Technical Community College. All Amounts Held in Custody for Others are recorded at fair market value.

Functional Allocation of Expenses

The cost of providing the Foundation's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited based on periodic time or usage studies.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Foundation.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Foundation generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising.

Tax Status

The Foundation operates as a public charity under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from federal and state income taxes and the excise tax which applies to certain foundations. However, the Foundation is subject to income tax on any unrelated business taxable income.

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

**Notes to the Financial Statements (Continued)
For the Year Ended December 31, 2018**

Note 1 – Nature of Activities and Significant Accounting Policies (continued)

Since the Foundation had no unrelated business income for the year ended December 31, 2018, no provision for income taxes is included in the accompanying financial statements. Contributions to the organization are tax deductible to donors under Section 170 of the IRC. The Foundation is not classified as a private foundation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Recent Accounting Pronouncement

In 2018, the Foundation adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a non-for-profit entity’s liquidity, financial performance, and cash flows. The main provisions of this guidance include presentation of two classes of net assets versus the previously required three, recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

The changes have the following effect on net assets at January 1, 2018.

<u>Net Asset Classifications</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
As previously presented, restated			
Unrestricted	\$ 289,578	\$ -	\$ 289,578
Temporarily restricted	-	976,161	976,161
Permanently restricted	-	452,265	452,265
Net assets, as reclassified	<u>\$ 289,578</u>	<u>\$ 1,428,426</u>	<u>\$ 1,718,004</u>

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

**Notes to the Financial Statements (Continued)
For the Year Ended December 31, 2018**

Note 2 – Cash and Cash Equivalents

As of December 31, 2018, cash and cash equivalents consisted of the following:

Unrestricted	\$ 293,782
Restricted:	
Amounts held in custody for others	23,075
Endowments	168,866
Restricted departmental gifts	1,651,705
Scholarships	<u>659,752</u>
Total restricted cash	<u>2,503,398</u>
Total cash and cash equivalents	<u><u>\$ 2,797,180</u></u>

Note 3 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, are:

Financial Assets

Cash & Cash Equivalents	\$ 2,797,180
Accounts Receivable, net	544,697
Unconditional Pledges, net	1,107,750
Investments convertible to cash in the next 12 months	<u>939,960</u>
Total Financial Assets	5,389,587

Less amounts not available to meet general expenditures within one year

Receivables due beyond one year	(280,500)
Restricted by donor for use in future periods	
Restricted by donor for future capital projects	(1,034,527)
Board Designated (not appropriated for next year)	
Future expendable donor-restricted endowment	(19,028)
Portion of donor-restricted endowment to be retained in perpetuity	(425,044)
Amounts held in custody for others	<u>(792,001)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 2,838,487</u></u>

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Note 4 – Fair Value Measurements

The Foundation reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

Notes to the Financial Statements (Continued) For the Year Ended December 31, 2018

Note 4 – Fair Value Measurements (continued)

lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

- *Level 1.* Quoted prices for identical assets or liabilities in active markets to which the organization has access at the measurement date.
- *Level 2.* Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include
 - quoted prices for similar assets or liabilities in active markets.
 - quoted prices for identical or similar assets in markets that are not active.
 - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
 - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- *Level 3.* Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value if observable inputs are not available.

When available, the Foundation measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that the Foundation is required to measure at fair value (for example, unconditional promises to give and in-kind contribution).

The primary uses of fair value measures in the Foundation's financial statements are

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of short-term investments
- recurring measurement of endowment and long-term investments.

The Foundation has a number of financial instruments, none of which are held for trading purposes. The Foundation estimates that the fair value of all financial instruments as of December 31, 2018 do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. The estimated fair value amounts have been determined by the Foundation on a recurring basis using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Foundation could realize in a current market exchange. The recorded values of cash and cash equivalents, certificates of deposit, and accrued expenses approximate their fair values based on their short-term nature.

The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

**Notes to the Financial Statements (Continued)
For the Year Ended December 31, 2018**

Note 5 – Accounts Receivable

Accounts receivable are as follows on December 31, 2018:

Accounts receivable	\$ 545,496
Allowance for uncollectible accounts	<u>(799)</u>
Accounts receivable, net	<u>\$ 544,697</u>

Note 6 – Unconditional Pledges Receivable

Unconditional pledges receivable are due as follows on December 31, 2018:

<u>Expected to be collected in:</u>	
Less than one year	\$ 827,750
One to five years	258,000
Greater than five years	22,500
Less: Allowance for uncollectible pledges	<u>(500)</u>
Total unconditional pledges receivables, net	<u>\$ 1,107,750</u>

Note 7 – Long-term Investments

The following table summarizes the levels in the fair value hierarchy of the Foundation's long-term investments at December 31, 2018:

Description	Level 1	Level 2	Level 3	Total Fair Value
Exchange-traded Products	\$ 614,307	\$ -	\$ -	\$ 614,307
Mutual Funds	152,190	101,261	-	253,451
Fixed Income Bonds	-	15,238	-	15,238
Hedge Funds	-	17,311	-	17,311
Private Investments & Equity	-	20,364	-	20,364
Partnership Interests	-	1,596	-	1,596
Venture Capital	-	10,039	-	10,039
Real Estate Investment Trusts	-	7,654	-	7,654
Total Investments	<u>\$ 766,497</u>	<u>\$ 173,463</u>	<u>\$ -</u>	<u>\$ 939,960</u>

As discussed in note 4 to these financial statements, the Foundation is required to report its fair value measurements in one of the three levels, which are based on the ability to observe in the marketplace the inputs to the organization's valuation techniques.

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

**Notes to the Financial Statements (Continued)
For the Year Ended December 31, 2018**

Note 8 – Property and Equipment

A summary of capital assets as of December 31, 2018, is as follows:

Automobiles	\$ 92,553
Less: accumulated depreciation	<u>(89,060)</u>
Property and Equipment, net	<u>\$ 3,493</u>

Depreciation expense for the year ended December 31, 2018, totaled \$3,493.

Note 9 – Endowments

In order to create an ‘endowed fund’ with the Foundation, a donor must give a minimum initial gift as defined in the endowment agreement. The Foundation’s endowments consist of individual funds established for a variety of purposes. The Foundation has established prudent investment and spending policies with the objective of maintaining the purchasing power of its endowed assets in perpetuity and providing a stable level of support to the beneficiaries. To achieve this objective, the Foundation’s asset allocation strategy is reviewed periodically and adjusted to target a total return that covers inflation, administrative expenses, and spending allocations, while minimizing volatility.

Certain endowed funds are provided by the State of Louisiana as a match to qualifying private endowed contributions and are managed under an agreement with the College for the College’s benefit. These State matching endowed funds are further subject to the investment and spending policies established by the Louisiana Board of Regents, which has statutory authority to administer the matching funds program.

A spending rate is determined by the Foundation’s Board of Directors on an annual basis, with consideration given to market conditions, the spending levels of peer institutions, and the level of real return after spending measured over the long term. The spending rate approved by the Board is applied to the three-year rolling average fair value of the investment pool of endowed assets. The objective is to provide relatively stable spending allocations.

Effective July 1, 2010, the Louisiana Legislature enacted Act No. 168 (the “Act”) to implement the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as the standard for the management and investment of institutional funds in Louisiana. The Act permits an institution to appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund was established, subject to the intent of the donor as expressed in the gift instrument.

In its interpretation of the law, the Foundation’s Board of Directors has determined that it is prudent for those funds with no donor restrictions to the contrary whose market value is in excess of corpus be made available for appropriation for expenditure within the provisions of the Board’s annual establishment of spending policy. The portion that has not been determined to be available for expenditure is considered by the Board to be funds of perpetual duration and is classified as Net Assets With Donor Restrictions – Perpetual in Nature. That portion that has been determined under relevant law by the Board to be available for appropriation is classified as Net Assets With Donor Restrictions – Restricted by Time or Purpose. In making such determination, the Board considered the following factors: the duration and preservation of the endowment fund; the purposes of the institution and the endowment fund; general economic conditions; the possible effect of inflation or deflation; expected total return from income and appreciation of investments; other resources of the institution; and the investment policy of the institution.

The Louisiana Board of Regents spending policy dictates that the market value of each endowment at the end of the most recent fiscal trust fund year must exceed the original corpus of the endowment by an

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

Notes to the Financial Statements (Continued)
For the Year Ended December 31, 2018

Note 9 – Endowments (continued)

amount equal to the amount to be made available for expenditure in the next fiscal year for which a spending allocation is made. When the current market value of each endowment is below the original corpus, no spending is allowed.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below corpus. Losses reduce the previous gains recognized in net assets with donor restrictions. When the net assets with donor restrictions are exhausted, the losses are reflected as a negative value within net assets with donor restrictions. Subsequent gains that restore the fair value of the assets of the endowment fund to corpus will be classified as an increase in net assets with donor restrictions to restore any losses claimed.

The following table includes the composition of endowment investments held by the Foundation, including pledges receivable and excluding amounts held in custody for others, as of December 31, 2018. All endowments are classified as donor restricted.

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 444,072	\$ 444,072

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SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

**Notes to the Financial Statements (Continued)
For the Year Ended December 31, 2018**

Note 9 – Endowments (continued)

Changes in endowment investments held by the Foundation for the year ended December 31, 2018, were as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Restricted by Time or Purpose	Perpetual in Nature	
Endowment net assets at December 31, 2017, as restated	\$ -	\$ 22,950	\$ 452,265	\$ 475,215
Investment income	-			
Investment income, net of expenses	-	3,208	-	3,208
Net realized and unrealized gains/(losses)	-	(5,703)	-	(5,703)
Total investment income	-	(2,495)	-	(2,495)
Additions		-	150,456	150,456
Transfer of Board of Regent matched funds	177,799	(122)	(177,677)	-
Reclassifications	(179,104)	-	-	(179,104)
Appropriation for expenditure	1,305	(1,305)	-	-
Endowment net assets at December 31, 2018	<u>\$ -</u>	<u>\$ 19,028</u>	<u>\$ 425,044</u>	<u>\$ 444,072</u>

Note 10 – Restatement of Beginning Net Assets

The beginning net assets for the year ended December 31, 2018, were restated to properly reflect revenue and receivable amounts for an endowment pledge.

Changes to net assets as a result of the above corrections are shown below.

	Without Donor Restrictions	With Donor Restrictions	Total
Originally stated at January 1, 2018	\$ 289,578	\$ 1,350,926	\$ 1,640,504
Endowment Pledge revenue	-	77,500	77,500
As restated at January 1, 2018	<u>\$ 289,578</u>	<u>\$ 1,428,426</u>	<u>\$ 1,718,004</u>

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

Notes to the Financial Statements (Continued) For the Year Ended December 31, 2018

Note 11 – Net Assets With Donor Restrictions

Net assets with donor restrictions were available for the following purposes as of December 31, 2018:

Purpose Restriction:

Academic support – various departments	\$	2,744,762
Endowed scholarships		425,044
Equipment restricted for instruction		3,494
Scholarships		439,143
Unappropriated endowment earnings		<u>19,028</u>
Total restricted net assets	\$	<u>3,631,471</u>

Net assets were released from donor restrictions by satisfaction of the restricted purposes or by occurrence of other events specified by the donors as follows for the year ended December 31, 2018:

Grants to College – academic scholarships	\$	415,333
Grants to College – academic programs		387,749
Grants to College – HC Drew private grant		400,339
Support for fundraising events		13,460
Depreciation – equipment restricted for instruction		3,493
Endowment corpus matched by Board of Regents		177,677
Earnings on Board of Regents matched endowment		<u>122</u>
Total released from restriction	\$	<u>1,398,173</u>

Net assets of \$177,677 were released from donor restrictions upon receipt of matched funds from the Louisiana Board of Regents in the amount of \$110,000 to create three endowed scholarships. These endowments are held and invested by the Foundation on behalf of SOWELA Technical Community College.

Note 12 – Affiliation Agreement

The purpose of the Foundation is to receive, hold, invest, and administer property and to make expenditures to support programs and activities designed to advance, promote, or otherwise benefit SOWELA Technical Community College. Because of the close association of the Foundation with the College, an affiliation agreement was originally entered into by both parties on May 25, 2000, with a renewed agreement entered into on December 13, 2012. The renewed agreement will be valid until such a time as one of the parties terminates the agreement with 30 days written notice.

Note 13 – Related Parties

Pursuant to the affiliation agreement between the Foundation and SOWELA Technical Community College, the College provides certain personnel services and usage of space and equipment for Foundation operations. The value of these services was \$131,444 in the year ended December 31, 2018. The College donates the use of the facilities to the Foundation. The fair value of such use cannot be objectively determined. In return, the Foundation provides, solicits and manages funds for the benefit of the College.

SOWELA TECHNICAL COMMUNITY COLLEGE FOUNDATION

Notes to the Financial Statements (Continued) For the Year Ended December 31, 2018

Note 14 – Board of Trustees Compensation

The Board of Trustees is a voluntary board; therefore, no compensation was paid to any board member during the year ended December 31, 2018.

Note 15 – Concentrations of Risk

Financial instruments which potentially subject the Foundation to a concentration of credit risk consist principally of cash and cash equivalents and investments. As of December 31, 2018, funds on deposit with various financial institutions exceeded available Federal Deposit Insurance Coverage (“FDIC”) by \$2,519,777. It is the opinion of management that the solvency of the referenced financial institutions is not of particular concern at this time.

Note 16 – Contingencies

Amounts received may be restricted per donor specification. Failure by the Foundation to comply with donor specifications may result in the donor requesting that the contribution be returned. As of December 31, 2018, the Foundation has met all donor specifications on all restricted contributions, and accordingly, no provision has been made for any liabilities that might arise from noncompliance.

The Foundation is supported by contributions from individuals as well as from local businesses. Contributions are fairly spread out among the local southwest Louisiana region; therefore, there is no concern of a concentration of risk from a few or small group of contributors or any one donor. It is always considered reasonably possible that benefactors, grantors, or contributors might be lost in the near term.

Note 17 – Grants to SOWELA Technical Community College

Pursuant to the affiliation agreement between the Foundation and the College, which states in part “the purpose of the Foundation shall be to receive, hold, invest, and administer property and to make expenditures to support programs and activities designed to advance, promote, or otherwise benefit the college”, the Foundation made grants to, or on behalf of, the College totaling \$1,203,420. The amount remaining as Due to Affiliate as of December 31, 2018, totaled \$679,218.

Note 18 – Amounts Held in Custody for Others

Amounts held in custody for others represent funds held by the Foundation on behalf of the College for long-term investment purposes. The fair value of these assets was \$792,001 as of December 31, 2018.

Note 19 – Subsequent Events

Management of the Foundation evaluated subsequent events and transactions for potential recognition of disclosure in the financial statements through April 30, 2021, the date which the financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a global pandemic, which continues to spread throughout the United States. The COVID-19 pandemic has negatively impacted the global economy and created significant volatility and disruption of financial markets. The extent of impact of the COVID-19 pandemic on the Foundation’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on its investments, customers, employees, and vendors, all of which are uncertain and cannot be predicted or reasonably estimated at this time. No other subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Supplementary Information



J. WALKER & COMPANY^{APC}

ACCOUNTANTS AND ADVISORS

Report on Compliance with the Affiliation Agreement with Sowela Technical Community College

Board of Directors
Sowela Technical Community College Foundation
Lake Charles, Louisiana

We have examined Sowela Technical Community College Foundation's compliance with the affiliation agreement with the Sowela Technical Community College for the year ended December 31, 2018. Management is responsible for the Foundation's compliance with those requirements. Our responsibility is to express an opinion on the Foundation's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the *American Institute of Certified Public Accountants* and, accordingly, included examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Foundation's compliance with specified requirements.

In our opinion, Sowela Technical Community College Foundation complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2018.

This report is intended solely for the information and use of board members and management of the Sowela Technical Community College Foundation and is not intended to be and should not be used by anyone other than these specified parties.

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, under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

J. Walker & Company, APC

Lake Charles, Louisiana
April 30, 2021

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