

SOWELA TECHNICAL COMMUNITY COLLEGE
A COLLEGE WITHIN THE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
A COMPONENT UNIT OF THE
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2008
ISSUED DECEMBER 17, 2008

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This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Eight copies of this public document were produced at an approximate cost of \$29.12. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3583 or Report ID No. 80080084 for additional information.

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

December 10, 2008

Independent Auditor's Report

**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, 2008, 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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, where applicable, 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 as of June 30, 2008, and the changes in its financial position and its 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, 2008, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1-N to the basic financial statements, SOWELA Technical Community College implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* for the year ended June 30, 2008.

During August and September 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown what economic impact recovery efforts will have on state and local governmental operations in Louisiana. SOWELA Technical Community College suffered major damage from Hurricane Rita. In addition, the Louisiana Community and Technical College System lost significant assets and operational functionality as a result of the hurricanes. However, the long-term effects of these events directly on SOWELA Technical Community College cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2008, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 is not a required part of the basic financial statements but is supplementary information required by GASB. SOWELA management did not include this information in the financial statements for fiscal year ended June 30, 2008. The Required Supplementary Information Schedule of Funding Progress for the Other Postemployment Benefits Plan is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of audit measurement and presentation of this required supplementary information. However, we did not audit the schedule and express no opinion on it.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

DLC:BH:EFS:PEP:dl

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

**Statement of Net Assets
June 30, 2008**

ASSETS

Current assets:

Cash and cash equivalents (note 2)	\$3,774,966
Receivables, net (note 3)	924,253
Inventories	6,576
Deferred charges and prepaid expenses	59,463
Total current assets	<u>4,765,258</u>

Noncurrent assets - capital assets, net (note 4)

2,813,647

Total assets

7,578,905

LIABILITIES

Current liabilities:

Accounts payable and accruals (note 8)	797,469
Deferred revenues (note 9)	340,435
Compensated absences payable (note 10)	79,712
Amounts held in custody for others	26,060
Total current liabilities	<u>1,243,676</u>

Noncurrent liabilities:

Compensated absences payable (note 10)	606,046
Other postemployment benefits payable (note 7)	1,183,039
Total noncurrent liabilities	<u>1,789,085</u>
Total liabilities	<u><u>3,032,761</u></u>

NET ASSETS

Invested in capital assets	2,813,647
Restricted for expendable (note 12)	79,160
Unrestricted	1,653,337
Total net assets	<u><u>\$4,546,144</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 Year Ended June 30, 2008**

OPERATING REVENUES	
Student tuition and fees	\$2,440,248
Less scholarship allowances	(823,984)
Net student tuition and fees	<u>1,616,264</u>
Federal grants and contracts	2,289,443
State and local grants and contracts	103,804
Sales and services of educational departments	49,474
Other operating revenues	<u>393,407</u>
Total operating revenues	<u><u>4,452,392</u></u>
OPERATING EXPENSES	
Educational and general:	
Instruction	6,888,899
Academic support	421,722
Student services	1,148,648
Institutional support	2,812,204
Operations and maintenance of plant	1,020,036
Depreciation (note 4)	360,453
Scholarships and fellowships	<u>1,222,898</u>
Total operating expenses	<u><u>13,874,860</u></u>
OPERATING LOSS	<u><u>(9,422,468)</u></u>
NONOPERATING REVENUES (Expenses)	
State appropriations	8,299,283
Gifts	226,547
Interest	36,501
Nonoperating revenues:	
Federal Emergency Management Agency	85,105
Office of Facility Planning	1,715,286
Other	23,146
Nonoperating expenses	<u>(3,404,233)</u>
Net nonoperating revenues	<u><u>6,981,635</u></u>
DECREASE IN NET ASSETS	(2,440,833)
NET ASSETS AT BEGINNING OF YEAR	<u>6,986,977</u>
NET ASSETS AT END OF YEAR	<u><u>\$4,546,144</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 Cash Flows
For the Year Ended June 30, 2008**

Cash Flows From Operating Activities:

Tuition and fees	\$1,697,157
Grants and contracts	1,927,368
Sales and services of educational departments	49,474
Payments for employee compensation	(6,080,060)
Payments for benefits	(1,873,216)
Payments for utilities	(303,896)
Payments for supplies and services	(2,201,925)
Payments for scholarships and fellowships	(1,222,898)
Other receipts	293,080
Net cash (used) by operating activities	<u>(7,714,916)</u>

Cash Flows From Noncapital Financing Activities:

State appropriations	8,299,283
Gifts and grants for other than capital purposes	226,547
TOPS receipts	123,083
TOPS disbursements	(123,083)
Other receipts	32,003
Net cash provided by noncapital financing activities	<u>8,557,833</u>

Cash Flows From Capital Financing Activities:

Purchases of capital assets	(330,202)
Net cash (used) by capital financing activities	<u>(330,202)</u>

Cash Flows From Investing Activities:

Interest received on deposits	36,500
Net cash provided by investing activities	<u>36,500</u>

Net increase in cash and cash equivalents 549,215

Cash and cash equivalents at beginning of year 3,225,751

Cash and cash equivalents at end of year \$3,774,966

(Continued)

The accompanying notes are an integral part of this statement.

**SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Statement of Cash Flows, June 30, 2007**

**Reconciliation of Net Operating Loss to
Net Cash Used by Operating Activities:**

Operating loss	(\$9,422,468)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	360,453
Changes in assets and liabilities:	
(Increase) in accounts receivable, net	(587,360)
(Increase) in inventories	(6,576)
(Increase) in prepaid expenses	(36,158)
Decrease in other assets	295,351
Increase in accounts payable	391,368
Increase in deferred revenue	102,047
Increase in compensated absences	5,388
Increase in other postemployment benefits payable	1,183,039
	<hr/>
Net cash (used) by operating activities	(7,714,916)
	<hr/> <hr/>

**Noncash Investing, Noncapital Financing, and Capital
and Related Financing Transactions:**

Office of Facility Planning payments in excess of claims recognized in the prior year	\$1,715,286
Expenses paid by Office of Facility Planning	(3,404,233)

(Concluded)

The accompanying notes are an integral part of this statement.

INTRODUCTION

SOWELA Technical Community College (college) is a publicly supported institution of higher education. The college is a part of the Louisiana Community and Technical College System (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 System; however, certain items, such as the annual budget of the college and changes to the degree programs and departments of instruction, require the approval of the Louisiana Board of Regents for 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 Johnson Avenue, Lake Charles, Louisiana. The college offers associate of applied science degrees in the areas of accounting technology, aviation maintenance technology, commercial art, computer specialist-operations, computer technology-applications development specialist, computer technology-networking specialist, computer technology-programming specialist, criminal justice, drafting and design technology, industrial electronics technology, industrial instrumentation, occupational education, office systems technology, and process technology; technical competency areas in dietary management and nursing assistant; an associate in general studies; and a certificate in technical studies in heating, ventilation and air conditioning. The college had enrollment of 743 and 1,627 in the summer and fall of 2007, respectively, and 1,619 in the spring of 2008. The college has 121 full-time faculty and staff.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards. 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 on the full accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to governmental units.

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 System, which is considered 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 colleges within the System primarily serve state residents. The accompanying financial statements present information only as to the transactions of the programs of the college.

Annually, the State of Louisiana issues a comprehensive financial report, which includes the activity contained in the accompanying financial statements within the System amounts. The Louisiana Legislative Auditor audits the basic financial statements of the System and the State of Louisiana.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the college is considered a special-purpose government engaged only in business-type activities. 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.

The college has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The college has elected to not apply FASB pronouncements issued after the applicable date.

D. BUDGETARY PRACTICES

The State of Louisiana’s appropriation to the college is an annual lapsing appropriation established by legislative action and 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; (3) summer school tuition and fees for June are not prorated while summer school faculty salaries and related benefits for June are prorated to the year earned; and (4) certain inventories are recorded as expenditures at the time of purchase. A formal budgetary comparison is not required by GASB reporting standards for proprietary funds and, therefore, budgetary comparisons are not presented.

The budget amount for fiscal year 2008 includes the original approved budget and subsequent amendments approved as follows:

Original approved budget	\$10,813,148
Amendments - statutory dedication increases	<u>477,115</u>
Total	<u><u>\$11,290,263</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. INVENTORIES

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

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property (equipment), the college's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life greater than one year. Buildings and improvements costing \$100,000 or more are capitalized. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are also capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and 3 to 10 years for most movable property.

H. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees prior to the end of the fiscal year but are related to the subsequent accounting period and deferred rental income related to an acquisition of land.

I. NONCURRENT LIABILITIES

Noncurrent liabilities include estimated amounts for accrued compensated absences and other postemployment benefits 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 or termination of employment, both classified and nonclassified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and nonclassified 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 which 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 one and one-half hour 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

The college's net assets are classified as follows:

- (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 capital assets.
- (b) Restricted net assets (expendable) consist of resources that the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- (c) Unrestricted net assets consist of resources derived from student tuition and fees, state appropriations, and sales and services of the educational department. 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, then toward restricted resources.

L. CLASSIFICATION OF REVENUES AND EXPENSES

The college has classified its revenues as either operating or nonoperating according to the following criteria: (1) Operating revenue includes activities that have the characteristics of exchange transactions, such as student tuition and fees, net of scholarship discounts and allowances; and most federal, state, and local grants and contracts. (2) Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, and investment income.

The college has classified its expenses as either operating or nonoperating according to the following criteria: (1) Operating expenses generally include transactions resulting from providing goods or services, such as payments to vendors for goods or services; payments to employees for services; and payments for employee benefits. (2) Nonoperating expenses include transactions resulting from financing activities, capital acquisitions, and investing activities.

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 is 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.

N. ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the year ended June 30, 2008, the college implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 affects the reporting of long-term liabilities and is addressed in the financial statements and the accompanying notes. The measurement and recognition requirements of this statement have been applied on a prospective basis.

O. 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. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

At June 30, 2008, the college has cash and cash equivalents (book balance) of \$3,774,966 as follows:

Petty cash	\$400
Interest-bearing demand deposits	3,729,298
Certificates of deposit	45,268
Total	\$3,774,966

Custodial credit risk is the risk that in the event of a bank failure, the college’s deposits may not be recovered. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These pledged securities are held in the name of the college or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties. At June 30, 2008, the college has \$4,058,870 in deposits (collected bank balances), which are secured from risk by federal deposit insurance plus pledged securities.

3. RECEIVABLES

Receivables are shown on the Statement of Net Assets, net of allowances for doubtful accounts at June 30, 2008. These receivables are composed of the following:

	<u>Receivables</u>	Allowance for Doubtful Accounts	<u>Net Receivables</u>
Student tuition and fees	\$199,301	\$108,474	\$90,827
Federal, state, and private grants and contracts	707,997		707,997
Other	<u>125,429</u>		<u>125,429</u>
Total	<u>\$1,032,727</u>	<u>\$108,474</u>	<u>\$924,253</u>

There is no noncurrent portion of receivables.

4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2008, follows:

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Capital assets not being depreciated - land	\$195,605	NONE	NONE	\$195,605
Other capital assets:				
Buildings	\$5,951,146			\$5,951,146
Less accumulated depreciation	(4,131,021)	(\$130,558)		(4,261,579)
Total buildings	1,820,125	(130,558)	NONE	1,689,567
Equipment	2,951,726	330,202	(\$106,052)	3,175,876
Less accumulated depreciation	(2,123,558)	(229,895)	106,052	(2,247,401)
Total equipment	828,168	100,307	NONE	928,475
Total other capital assets	\$2,648,293	(\$30,251)	NONE	\$2,618,042
Capital asset summary:				
Capital assets not being depreciated	\$195,605			\$195,605
Other capital assets, at cost	8,902,872	\$330,202	(\$106,052)	9,127,022
Total cost of capital assets	9,098,477	330,202	(106,052)	9,322,627
Less accumulated depreciation	(6,254,579)	(360,453)	106,052	(6,508,980)
Capital assets, net	\$2,843,898	(\$30,251)	NONE	\$2,813,647

5. 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 Teachers Retirement System of Louisiana (TRSLA), and classified and unclassified state employees are generally members of the Louisiana State Employees' Retirement System (LASERS). Both plans are administered by separate boards of trustees. TRSLA 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. TRSLA and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. The State of Louisiana guarantees benefits granted by the retirement systems by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the retirement systems; employee benefits vest with TRSLA after five years of service and with LASERS after 10 years of service. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The retirement systems issue annual publicly available financial reports that include financial statements and required supplementary information. 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 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. For fiscal year 2008, employees contributed 8% (TRSLA) and 7.5% (LASERS) of covered salaries. Act 75 of the 2005 Regular Legislative Session now requires that employees hired on or after July 1, 2006, must contribute 8% of covered salaries to LASERS. The state is required to contribute 16.6% of covered salaries to TRSLA and 20.4% of covered salaries to LASERS for fiscal year 2008. The State of Louisiana, through the annual appropriation to the college, funds the college's employer contribution. The college's employer contributions to TRSLA for the years ended June 30, 2008, 2007, and 2006 were \$710,287; \$612,388; and \$567,285, respectively, and to LASERS for the years ended June 30, 2008, 2007, and 2006 were \$202,342; \$168,129; and \$172,184, respectively, equal to the required contributions for each year.

6. OPTIONAL RETIREMENT SYSTEM

R.S. 11:921 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This plan was designed to aid colleges in recruiting employees who may not be expected to remain in the TRSLA 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 TRSLA and purchase retirement and death benefits through contracts provided by designated companies.

R.S. 11:927 sets the contribution requirements of the plan members and the system equal to the contribution rates established for the regular retirement plan of TRSLA. Total contributions by the college are 16.6% of the covered payroll for fiscal year 2008. The participant's contribution, which was 8% for fiscal year 2008, 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 TRSLA 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 TRSLA 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 TRSLA. 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 \$29,459 and \$13,978, respectively, for the year ended June 30, 2008.

7. OTHER POSTEMPLOYMENT BENEFITS

Plan Description--Employees of the college voluntarily participate in the State of Louisiana's health insurance plan. The Office of Group Benefits (OGB) provides medical and life insurance benefits to eligible retirees and their beneficiaries. Participants are eligible for retiree benefits if they meet the retirement eligibility as defined in the applicable retirement system and they must be covered by the active medical plan immediately prior to retirement. The postemployment benefits plan is a cost-sharing, multiple-employer defined benefit plan but is classified as an agent multiple-employer plan for financial reporting purposes since the plan is not administered as a formal trust. R.S. 42:801-883 provides the authority to establish and amend benefit provisions of the plan. OGB does not issue a publicly available financial report; however, the entity is included in the Louisiana Comprehensive Annual Financial Report (CAFR). You may obtain a copy of the CAFR on the Office of Statewide Reporting and Accounting Policy's Web site at www.doa.la.gov/osrap.

Funding Policy--The contribution requirements of plan members and the college are established and may be amended by R.S. 42:801-883. Employees do not contribute to their postemployment benefits cost until they become retirees and begin receiving those benefits. The retirees contribute to the cost of retiree healthcare based on a service schedule. Contribution amounts vary depending on what healthcare provider is selected from the plan and if the member has Medicare coverage. OGB offers three standard plans for both active and retired employees: the Preferred Provider Organization (PPO) plan, the Exclusive Provider Organization (EPO) plan, and the Health Maintenance Organization (HMO) plan. Retired employees who have Medicare Part A and Part B coverage also have access to six OGB Medicare Advantage plans: three HMO plans and three private fee-for-service (PFFS) plans. The three HMO plans are Humana Regional HMO Plan, Peoples Health Regional HMO Plan, and Vantage Statewide HMO-Point-of-Service Plan. The three private fee-for-service plans are Humana Statewide PFFS Plan, Universal American/Today's Option Statewide PFFS Plan, and United Healthcare/Secure Horizons Statewide PFFS Plan. Depending upon the plan selected, during fiscal year 2008, employee premiums for a single member receiving benefits range from \$34 to \$92 per month for retiree-only coverage with Medicare or from \$126 to \$170 per month for retiree-only coverage without Medicare. The fiscal year 2008 employee premiums for a retiree with spouse, children, or family coverage range from \$69 to \$452 per month for those with Medicare and from \$181 to \$496 per month for those without Medicare.

The plan is currently financed on a pay-as-you-go basis with the college contributing from \$103 to \$237 per month for retiree-only coverage with Medicare or from \$809 to \$842 per month for retiree-only coverage without Medicare during fiscal year 2008. Also, the college's contributions range from \$207 to \$1,168 per month for retiree with spouse, children, or family coverage with Medicare or from \$860 to \$1,293 for retiree with spouse, children, or family coverage without Medicare.

OGB also provides eligible retirees Basic Term Life, Basic Plus Supplemental Term Life, Dependent Term Life, and Employee Accidental Death and Dismemberment coverage, which is underwritten by The Prudential Insurance Company of America. The total monthly premium is approximately \$1 per thousand dollars of coverage of which the employer pays one-half of the premium. Maximum coverage is capped at \$50,000 with a reduction formula of 25% at age 65

and 50% at age 70, with accidental death and dismemberment coverage ceasing at age 70 for retirees.

Annual Other Postemployment Benefit Cost and Liability--The college's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45, which is being implemented prospectively for the year ended June 30, 2008. The ARC represents a level of funding that, if paid on an ongoing basis, would cover normal cost each year and amortize any unfunded actuarial accrued liability (UAAL) over a period of 30 years. A 30-year, closed amortization period had been used. The total ARC for fiscal year 2008 is \$1,464,300 as set forth below:

Normal cost	\$855,800
30-year UAAL amortization amount	552,181
Interest	<u>56,319</u>
Annual required contribution (ARC)	<u><u>\$1,464,300</u></u>

The following schedule presents the college's OPEB obligation for fiscal year 2008:

Annual required contribution	\$1,464,300
Interest on net OPEB obligation	NONE
ARC adjustment	<u>NONE</u>
OPEB cost	1,464,300
Contributions made - current year retiree premiums	<u>(281,261)</u>
Change in net OPEB obligation	1,183,039
Beginning net OPEB obligations at July 1, 2007	<u>NONE</u>
Ending net OPEB obligation at June 30, 2008	<u><u>\$1,183,039</u></u>

Using the pay-as-you-go method, the college contributed 19% of the annual postemployment benefits cost during 2008.

Funded Status and Funding Progress--During fiscal year 2008, neither the college nor the State of Louisiana had a postemployment benefits plan trust established. A trust was established July 1, 2008. Hence, the funded ratio is zero. Since the plan was not funded, the college's entire actuarial accrued liability of \$14,449,300 was unfunded.

The funded status of the plan, as determined by an actuary as of July 1, 2007, was as follows:

Actuarial accrued liability (AAL)	\$14,449,300
Actuarial value of plan assets	<u>NONE</u>
Unfunded actuarial accrued liability	<u><u>\$14,449,300</u></u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll	\$4,734,447
UAAL as percentage of covered payroll	305%

Actuarial Methods and Assumptions--Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

In the July 1, 2007, OGB actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return and initial annual healthcare cost trend rate of 9.5% and 10.6% for pre-Medicare and Medicare eligibles, respectively, scaling down to ultimate rates of 5% per year. The RP 2000 Mortality Table was used in making actuarial assumptions. Retirement rate assumptions differ by employment group and date of plan participation. The state's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008, is 29 years.

8. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable and accruals at June 30, 2008, are as follows:

Vendors	\$365,296
Salaries and benefits	431,098
Other	<u>1,075</u>
Total	<u><u>\$797,469</u></u>

9. DEFERRED REVENUES

For the years ended June 30, 2008, the amount of tuition and fees and rental income recorded prior to the end of the fiscal year but related to the subsequent accounting period is as follows:

Tuition and fees	\$245,251
Rental income	<u>95,184</u>
Total	<u><u>\$340,435</u></u>

10. COMPENSATED ABSENCES

At June 30, 2008, employees of the college have accumulated and vested annual, sick, and compensatory leave benefits of \$432,604; \$252,535; and \$619, 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 June 30, 2008	\$680,370
Additions	88,973
Reductions	<u>(83,585)</u>
Balance as of June 30, 2008	<u><u>\$685,758</u></u>
Amounts due within one year	<u><u>\$79,712</u></u>

11. LEASES OBLIGATIONS

For the year ended June 30, 2008, total rental expense for office equipment is \$366,465. The future minimum annual rental payments for 2009 are \$133,692. The college does not have any capital leases.

12. RESTRICTED NET ASSETS

At June 30, 2008, the college has \$79,160 in restricted expendable net assets as follows:

Student fees	\$26,102
Scholarships	<u>53,058</u>
Total	<u><u>\$79,160</u></u>

Of the total restricted net assets at June 30, 2008, none are restricted by enabling legislation.

13. CONTINGENT LIABILITIES AND RISK MANAGEMENT

The college is not involved in any lawsuits handled by the college's attorneys or contract attorneys at June 30, 2008. Any losses arising from judgments, claims, and similar contingencies would be 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 appropriation from the state's General Fund. During fiscal year 2008, no direct claims or

litigation costs were incurred by the college. All other lawsuits are being handled by the Office of Risk Management.

14. FOUNDATION

The accompanying financial statements do not include the accounts of the SOWELA Technical Community College Foundation, Incorporated. This foundation is not included because it does not meet criteria established by the Division of Administration, Office of Statewide Reporting and Accounting Policy, for determining component units included in the college system's financial statements in accordance with GASB Statement 14, as amended by GASB Statement 39. This foundation is a separate corporation whose financial statements are subject to audit by independent certified public accountants.

15. HURRICANES KATRINA AND RITA

During August and September 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area.

On September 24, 2005, the college was struck by Hurricane Rita. The hurricane caused considerable damage to building roofs, allowing rain water to enter the buildings. This resulted in water and mold damage to the buildings' interiors. The college cancelled the fall 2005 semester but reopened for the spring 2006 semester using 44 temporary classrooms. One building with a total carrying value of \$392,439 remains idle at June 30, 2008. This facility, as well as other partially damaged facilities, is being repaired based upon the state Office of Facility Planning and Control's priority schedule. The time of completion of the repairs is not certain.

16. DEFERRED COMPENSATION PLAN

Certain employees of the 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.

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REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for the
Other Postemployment Benefits Plan

The schedule of funding progress is required supplementary information that presents certain specific data regarding the funding progress of the Other Postemployment Benefits Plan, including the unfunded actuarial accrued liability.

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

**Schedule of Funding Progress for the
Other Postemployment Benefits Plan
Fiscal Year Ended June 30, 2008**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Cost (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2007	NONE	\$14,449,300	\$14,449,300	0.0%	\$4,734,447	305%

Note to the Schedule:

GASB Statement 45 was implemented prospectively during the fiscal year ended June 30, 2008; therefore, only one year of information is presented.

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

December 10, 2008

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

**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, 2008, and have issued our report thereon dated December 10, 2008. Our report was modified to include an emphasis of a matter regarding the impact of hurricanes Katrina and Rita and the implementation of a new accounting standard. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SOWELA Technical Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SOWELA Technical Community College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's

financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SOWELA Technical Community College's 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 college management, the Louisiana Community and Technical College System, the Louisiana Community and Technical College System Board of Supervisors, others within the entity, and the Louisiana Legislature 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

DLC:BH:EFS:PEP:dl

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