

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, 2007
ISSUED JANUARY 9, 2008

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December 14, 2007

Independent Auditor's Report
on the Financial Statements

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

We have audited the accompanying basic financial statements of SOWELA Technical Community College, a college within the Louisiana Community and Technical College System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2007, 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, 2007, 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, 2007, 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.

As discussed in note 15 to the financial statements, 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 14, 2007, 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 the Governmental Accounting Standards Board. However, SOWELA management did not include this information in the financial statements for fiscal year ended June 30, 2007.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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STCC07

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

**Statement of Net Assets
June 30, 2007**

ASSETS

Current assets:

Cash and cash equivalents (note 2)	\$3,225,751
Receivables, net (note 3)	1,950,384
Due from federal government	1,471
Due from Louisiana Community and Technical College System	295,351
Deferred charges and prepaid expenses	23,305
Total current assets	5,496,262

Noncurrent assets - capital assets, net (note 4)	2,843,898
Total assets	8,340,160

LIABILITIES

Current liabilities:

Accounts payable and accruals (note 8)	406,101
Deferred revenues (note 9)	238,388
Compensated absences payable (note 10)	67,894
Amounts held in custody for others	28,324
Total current liabilities	740,707

Noncurrent liabilities - compensated absences payable (note 10)	612,476
Total liabilities	1,353,183

NET ASSETS

Invested in capital assets	2,843,898
Restricted for expendable (note 12)	76,440
Unrestricted	4,066,639
TOTAL NET ASSETS	\$6,986,977

The accompanying notes are an integral part of this statement.

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

**Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007**

OPERATING REVENUES

Student tuition and fees	\$2,138,611
Less scholarship allowances	(582,082)
Net student tuition and fees	<u>1,556,529</u>
Federal grants and contracts	1,709,801
State and local grants and contracts	179,599
Nongovernmental grants and contracts	26,486
Sales and services of educational departments	50,416
Other operating revenues	<u>376,276</u>
Total operating revenues	<u>3,899,107</u>

OPERATING EXPENSES

Educational and general:	
Instruction	5,332,092
Academic support	380,764
Student services	674,316
Institutional support	2,122,640
Operations and maintenance of plant	640,004
Depreciation (note 4)	348,293
Scholarships and fellowships	840,160
Other operating expenses	<u>107,529</u>
Total operating expenses	<u>10,445,798</u>

OPERATING LOSS (6,546,691)

NONOPERATING REVENUES (Expenses)

State appropriations	7,169,178
Gifts	17,140
Net investment income	24,583
Nonoperating revenue - Federal Emergency Management Agency (FEMA)	238,167
Other nonoperating expenses	<u>(1,025,653)</u>
Net nonoperating revenues	<u>6,423,415</u>

INCOME BEFORE OTHER REVENUES (123,276)

Capital gifts and grants 355,000

Increase in Net Assets 231,724

NET ASSETS AT BEGINNING OF YEAR 6,755,253

NET ASSETS AT END OF YEAR \$6,986,977

The accompanying notes are an integral part of this statement.

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

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007**

Cash Flows From Operating Activities:

Tuition and fees	\$1,661,904
Grants and contracts	3,662,389
Sales and services of educational departments	50,416
Payments for employee compensation	(5,520,179)
Payments for benefits	(1,628,234)
Payments for utilities	(250,170)
Payments for supplies and services	(1,736,844)
Payments for scholarships and fellowships	(840,161)
Other receipts	409,913
Net cash (used) by operating activities	<u>(4,190,966)</u>

Cash Flows From Noncapital Financing Activities:

State appropriations	6,873,828
Gifts and grants for other than capital purposes	17,140
TOPS receipts	138,725
TOPS disbursements	(138,725)
Other receipts	33,232
Net cash provided by noncapital financing activities	<u>6,924,200</u>

Cash Flows From Capital Financing Activities:

Purchases of capital assets	(243,720)
Net cash (used) by capital financing activities	<u>(243,720)</u>

Cash Flows From Investing Activities:

Interest received on investments	24,583
Net cash provided by investing activities	<u>24,583</u>

Net increase in cash and cash equivalents 2,514,097

Cash and cash equivalents at beginning of year 711,654

Cash and cash equivalents at end of year \$3,225,751

(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, 2007**

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

Operating loss	(\$6,546,691)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	348,293
Changes in assets and liabilities:	
Decrease in accounts receivable, net	1,748,043
(Increase) in prepaid expenses	(8,650)
Decrease in other assets	77,873
Increase in accounts payable	59,456
Increase in deferred revenue	137,132
(Decrease) in compensated absences	(6,422)
	<hr/>
Net cash (used) by operating activities	<u><u>(\$4,190,966)</u></u>

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

Capital gifts and grants	\$355,000
Insurance recoveries from claims recognized in the prior year	844,939
FEMA recoveries	180,714
Expenses paid by FEMA and the Office of Risk Management	(1,025,653)

(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, which is a component unit of the State of Louisiana, within the executive branch of government. The college is under the management and supervision of the Board of Supervisors of the Louisiana Community and Technical College System; however, 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 of Higher Education. As a state college, operations of the college's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

The college is located at 3820 Senator J. Bennett 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 certification in technical studies in air conditioning and refrigeration. The college had enrollment of 932 and 1,634 in the summer and fall of 2006, respectively, and 1,421 in the spring of 2007. The college has 112 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 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.

B. REPORTING ENTITY

SOWELA Technical Community College is part of the Louisiana Community and Technical College System (System), which is considered a component unit of the State of Louisiana under the criteria in GASB Codification Section 2100, 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 SOWELA Technical Community College.

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

D. BUDGET 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 and summer school faculty salaries and related benefits for June are not prorated but are recognized in the succeeding year; and (4) carry forward of prior year funds is recognized as revenue in the current year.

The budget amount for fiscal year 2007 includes the original approved budget and subsequent amendments approved as follows:

Original approved budget	\$9,870,949
Amendments - State General Fund increases	<u>483,708</u>
Total	<u><u>\$10,354,657</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. 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.

G. 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.

H. NONCURRENT LIABILITIES

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

I. 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.

J. 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 acquisition, construction, or improvement of these 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.

K. 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.

L. 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.

2. CASH AND CASH EQUIVALENTS

At June 30, 2007, the college has cash and cash equivalents (book balance) of \$3,225,751 as follows:

Petty cash	\$400
Interest-bearing demand deposits	3,182,231
Certificates of deposit	<u>43,120</u>
Total	<u><u>\$3,225,751</u></u>

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 similar federal security 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 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, 2007, the college has \$3,372,091 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, 2007. These receivables are composed of the following:

	<u>Receivables</u>	Allowance for Doubtful Accounts	<u>Net Receivables</u>
Student tuition and fees	\$99,953	\$34,641	\$65,312
Federal, state, and private grants and contracts	155,864		155,864
Insurance recoveries	1,688,947		1,688,947
Other	<u>54,737</u>	<u>14,476</u>	<u>40,261</u>
Total	<u><u>\$1,999,501</u></u>	<u><u>\$49,117</u></u>	<u><u>\$1,950,384</u></u>

There is no noncurrent portion of receivables.

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2007, follows:

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2006
Capital assets not being depreciated - land	\$76,625	\$118,980	NONE	\$195,605
Other capital assets:				
Buildings	\$5,951,146			\$5,951,146
Less accumulated depreciation	(4,000,462)	(\$130,559)		(4,131,021)
Total buildings	1,950,684	(130,559)	NONE	1,820,125
Equipment	2,486,656	479,740	(\$14,670)	2,951,726
Less accumulated depreciation	(1,920,494)	(217,734)	14,670	(2,123,558)
Total equipment	566,162	262,006	NONE	828,168
Total other capital assets	\$2,516,846	\$131,447	NONE	\$2,648,293
Capital asset summary:				
Capital assets not being depreciated	\$76,625	\$118,980		\$195,605
Other capital assets, at cost	8,437,802	479,740	(\$14,670)	8,902,872
Total cost of capital assets	8,514,427	598,720	(14,670)	9,098,477
Less accumulated depreciation	(5,920,956)	(348,293)	14,670	(6,254,579)
Capital assets, net	\$2,593,471	\$250,427	NONE	\$2,843,898

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

Funding Policy. The contribution requirements of plan members and the college are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. For fiscal year 2007, employees contributed 8.0% (TRS) and 7.5%-8.0% (LASERS) of covered salaries. The state is required to contribute 15.8% of covered salaries to TRS and 19.1% of covered salaries to LASERS for fiscal year 2007; 15.9% (TRS) and 19.1% (LASERS) for fiscal year 2006; and 15.5% (TRS) and 17.8% (LASERS) for fiscal year 2005. The college's employer contribution is funded by the State of Louisiana through the annual appropriation to the college. The college's employer contributions to TRS for the years ended June 30, 2007, 2006, and 2005 were \$612,388; \$567,285; and \$545,458, respectively, and to LASERS for the years ended June 30, 2007, 2006, and 2005 were \$168,129; \$172,184; and \$158,874, 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 program, which is administered by TRS, was designed to aid colleges in recruiting employees who may not be expected to remain in TRS for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

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

Total contributions by the college were 15.8% of the covered payroll for fiscal year 2007. The participant's contribution, which was 8.0% for fiscal year 2007, less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRS pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial committee. The TRS retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligation of the State of Louisiana or the TRS. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled \$20,346 and \$9,629, respectively, for fiscal year June 30, 2007; \$20,368 and \$11,633, respectively, for fiscal year 2006; and \$13,861 and \$8,639, respectively, for fiscal year 2005.

7. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The college provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the college's employees become eligible for these benefits if they reach normal retirement age while working for the college. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and the college. The college recognizes the cost of providing these benefits to retirees (college's portion of premiums) as an expense when paid during the year. The cost of providing benefits for the 53 retirees totaled \$227,301 for the year ended June 30, 2007.

8. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable and accruals at June 30, 2007, are as follows:

Vendors	\$106,986
Salaries and benefits	297,208
Other	<u>1,907</u>
Total	<u><u>\$406,101</u></u>

9. DEFERRED REVENUES

For the years ended June 30, 2007, the amount of tuition and fees and certain auxiliary activities received prior to the end of the fiscal year but related to the subsequent accounting period is as follows:

Tuition and fees	\$131,306
Rental income	<u>107,082</u>
Total	<u><u>\$238,388</u></u>

10. COMPENSATED ABSENCES

At June 30, 2007, employees of the college have accumulated and vested annual, sick, and compensatory leave benefits of \$429,597; \$249,538; and \$1,235, 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:

NOTES TO THE FINANCIAL STATEMENTS

Balance as of June 30, 2006	\$686,792
Additions	95,554
Reductions	<u>(101,976)</u>
Balance as of June 30, 2007	<u>\$680,370</u>
Amounts due within one year	<u>\$67,894</u>

11. LEASES OBLIGATIONS

For the year ended June 30, 2007, total rental expense for office equipment is \$328,477. The future minimum annual rental payments for 2008 are \$133,692. The college does not have any capital or revenue leases.

12. RESTRICTED NET ASSETS

At June 30, 2007, the college has \$76,440 in restricted expendable net assets as follows:

Student fees	\$31,650
Scholarships	<u>44,790</u>
Total	<u>\$76,440</u>

Of the total restricted net assets at June 30, 2007, none are restricted by enabling legislation.

13. CONTINGENT LIABILITIES AND RISK MANAGEMENT

The college is not involved in any lawsuits at June 30, 2007. 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 2007, no direct claims or litigation costs were incurred by the college.

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 statement 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. Two buildings with a total carrying value of \$840,732 remain idle at June 30, 2007. These facilities, as well as other partially damaged facilities, are being repaired based upon the state Office of Facility Planning and Control priority schedule. The time of completion of the repairs is not certain.

16. DEFERRED COMPENSATION PLAN

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

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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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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December 14, 2007

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, 2007, and have issued our report thereon dated December 14, 2007. Our report was modified to include an emphasis of a matter regarding the impact of hurricanes Katrina and Rita. 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 the Louisiana Community and Technical College System board, SOWELA Technical Community College's management, 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

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