

**LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**
Baton Rouge, Louisiana

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2003
With Supplemental Information Schedule

February 25, 2004



DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

Albert J. Robinson, Jr., CPA

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**LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**
Baton Rouge, Louisiana

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2003
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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

February 25, 2004

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

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2003
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December 18, 2003

Independent Auditor's Report
on the Financial Statements

**LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM**
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of the Louisiana Community and Technical College System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2003. These financial statements are the responsibility of management of the Louisiana Community and Technical College System. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the South Louisiana Community College Facilities Corporation, the Baton Rouge Community College Facilities Corporation, or Campus Facilities, Inc., which represent 42.2%, 71.6%, 0.4%, and 0.2%, respectively, of the assets, liabilities, net assets, and revenues of the Louisiana Community and Technical College System. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the South Louisiana Community College Facilities Corporation, the Baton Rouge Community College Facilities Corporation, and Campus Facilities, Inc., is based solely upon the reports of the other auditors.

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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to previously present fairly, in all material respects, the financial position of the Louisiana Community and Technical College System as of June 30, 2003, and its changes in financial position, including cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LEGISLATIVE AUDITOR

LOUISIANA COMMUNITY AND TECHNICAL COLLEGE SYSTEM STATE OF LOUISIANA Audit Report, June 30, 2003


As discussed in note 1-B, the Baton Rouge Community College Facilities Corporation, the South Louisiana Community College Facilities Corporation, and the Campus Facilities, Inc., for Bossier Parish Community College have been blended into the respective community college's basic financial statements for the year ended June 30, 2003, and appropriately included in the system's basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2003, on our consideration of the Louisiana Community and Technical College System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 4 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information schedule of per diem paid board members on page 44 is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Louisiana Community and Technical College System. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



Grover C. Austin, CPA
First Assistant Legislative Auditor

AD:BQD:THC:dl

[LCTCS03]

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Louisiana Community and Technical College System's (the System's) annual financial report presents a discussion and analysis of the System's financial performance during the fiscal year that ended June 30, 2003. Please read this section in conjunction with the System's financial statements, which follow this section. The System is comprised of the following entities:

- Board Office
- Louisiana Technical College
- Baton Rouge Community College
- Bossier Parish Community College
- Delgado Community College
- Nunez Community College
- South Louisiana Community College
- River Parishes Community College
- Louisiana Delta Community College

FINANCIAL HIGHLIGHTS

The System's overall net assets changed from \$106 million to \$120 million, a 13% increase from June 30, 2002, to June 30, 2003. The overall reasons for this change included:

- Increases in state funding
- Increases in fees and tuition
- Increases in capital appropriations
- Increases in student funding for student financial aid

The College's operating revenues increased by approximately 25% to \$148,392,771 from June 30, 2002 to June 30, 2003, because of tuition/fee increases and various grant/contract programs. Operating expenses, however, increased by 12% to \$289,399,477 for the year ended June 30, 2003. The primary reasons for this change include faculty salary increases, scholarship and fellowship increases, and general increases in operations.

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations. The change to \$146,898,940 in 2003 from \$135,673,200 in 2002 is primarily attributed to an increase in state appropriations, which increased by \$8,774,330.

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

Management's Discussion and Analysis (Continued)

The System issued \$117,840,000 of bonds payable to finance major construction programs on three campuses: Baton Rouge Community College, Bossier Parish Community College, and South Louisiana Community College.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and other supplementary information. The basic financial statements present information for the System as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

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

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

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

FINANCIAL ANALYSIS

Net Assets

The System's total net assets at June 30, 2003, changed by approximately \$14 million, a 13% increase over June 30, 2002 (see Table A-1). Total assets increased 93% to \$290 million, and total liabilities increased 286% to \$170 million because of the issuance of \$117,840,000 of new bonds payable by Baton Rouge Community College, Bossier Parish Community College, and South Louisiana Community College.

**LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**
Management's Discussion and Analysis (Continued)

**Table A-1
Louisiana Community and
Technical College System
Statement of Net Assets
(in millions of dollars)
June 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>Percent Change</u>
Assets				
Current assets	\$61	\$50	\$11	22%
Restricted assets	110		110	100%
Capital assets	117	98	19	19%
Other	2	2		0%
Total assets	<u>290</u>	<u>150</u>	<u>140</u>	93%
Liabilities				
Current liabilities	35	28	7	25%
Long-term liabilities	135	16	119	744%
Total liabilities	<u>170</u>	<u>44</u>	<u>126</u>	286%
Net assets:				
Invested in capital assets	98	94	4	4%
Restricted	8	5	3	60%
Unrestricted	14	7	7	100%
Total net assets	<u>\$120</u>	<u>\$106</u>	<u>\$14</u>	13%

This schedule is prepared from the System's Statement of Net Assets as shown on page 12, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. Significant Statement of Net Asset changes in 2003 include the following:

- Current assets increased \$11 million to \$61 million primarily as a result of an increase in accounts receivable from grants and contracts.
- Restricted assets increased to \$110 million as a result of the cash proceeds of the new bond issues relating to Baton Rouge Community College, Bossier Parish Community College, and South Louisiana Community College. The proceeds of the three bond issues are to be used in the construction of various facilities for each college.
- Capital assets increased \$19 million to \$117 million primarily because of the construction in progress of the new buildings for Baton Rouge Community College, Bossier Parish Community College, and South Louisiana Community College.

**LOUISIANA COMMUNITY AND
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STATE OF LOUISIANA**

Management's Discussion and Analysis (Continued)

- Current liabilities increased because of an increase in accounts payable and deferred revenue.
- Long-term liabilities increased primarily because of the bond issues relating to construction projects as discussed previously.
- Unrestricted net assets increased primarily as a result of the operations of the System.

Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by the outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. Net assets restricted remain consistent in 2003 as compared to 2002.

Changes in Net Assets

The change in net assets at June 30, 2003, is approximately \$14 million or 1300% more than at June 30, 2002. The changes in net assets are detailed in Table A-2; general and education expenses are detailed in Table A-3.

The System's total operating revenues increased by 24% to approximately \$148 million, and total operating expenses increased 12% to approximately \$289 million. These changes are the result of several factors, including the following:

- Operating revenues increased because of increases in student tuition and fees and federal grants and contracts.
- Operating expenses increased because of increases primarily from faculty salary adjustments, scholarship and fellowship expenses, and increases in general operations of the System.

Nonoperating revenues increased by 8% to \$147 million, primarily attributable to increased state appropriations. Capital and operating state appropriations changed from \$141 million to \$154 million because of an increase in appropriations.

Total education and general expenses changed from \$252 million in 2002 to \$285 million in 2003, the change which is primarily attributable to the following:

- Faculty and staff salary increases
- Increase in number of faculty
- Increase in student financial aid
- General increases in operating the System

**LOUISIANA COMMUNITY AND
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STATE OF LOUISIANA**
Management's Discussion and Analysis (Continued)

Depreciation expense was consistent with the prior year.

Table A-2
Louisiana Community and
Technical College System
Statement of Revenues, Expenses,
and Changes in Retained Earnings
(in millions of dollars)
Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>Percent Change</u>
Operating revenues				
Student tuition and fees, net	\$37	\$28	\$9	32%
Auxiliary	4	5	(1)	-20%
Other	107	86	21	24%
Total operating revenues	<u>148</u>	<u>119</u>	<u>29</u>	24%
Operating expenses				
Education and general	285	252	33	13%
Other	4	6	(2)	-33%
Total operating expenses	<u>289</u>	<u>258</u>	<u>31</u>	12%
Operating loss	<u>(141)</u>	<u>(139)</u>	<u>(2)</u>	1%
Nonoperating revenue (expense)				
State appropriations	146	137	9	700%
Other	1	(1)	2	200%
Total nonoperating revenue	<u>147</u>	<u>136</u>	<u>11</u>	8%
Capital appropriation and other	<u>8</u>	<u>4</u>	<u>4</u>	100%
Change in net assets	14	1	13	1300%
Net assets, beginning of year	<u>106</u>	<u>105</u>	<u>1</u>	1%
Net assets, end of year	<u>\$120</u>	<u>\$106</u>	<u>\$14</u>	13%

**LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**
Management's Discussion and Analysis (Continued)

**Table A-3
Louisiana Community and
Technical College System
Education and General Expenses
(in millions of dollars)
Years Ended June 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>Percent Change</u>
Instruction	\$120	\$110	\$10	9%
Public service	3	2	1	50%
Academic support	26	24	2	8%
Student services	25	18	7	39%
Institutional support	47	47		
Operations and maintenance of plant	23	18	5	28%
Depreciation	7	7		
Scholarships and fellowships	<u>34</u>	<u>26</u>	<u>8</u>	31%
Total	<u>\$285</u>	<u>\$252</u>	<u>\$33</u>	13%

Statement of Cash Flows

Another way to assess the financial health of the System is to look at the Statement of Cash Flows. The Statement of Cash Flows assists users to assess the following:

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

As summarized in Table A-4, major sources of funds in operating activities in 2003 include tuition and fees of \$43 million, auxiliary enterprises of \$4 million, and grants and contracts of \$72 million.

**LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**
Management's Discussion and Analysis (Continued)

**Table A-4
Louisiana Community and
Technical College System
Statement of Cash Flows
(in millions of dollars)
Years Ended June 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>Percent Change</u>
Cash and cash equivalents provided by (used in):				
Operating activities	(\$142)	(\$129)	(\$13)	-10%
Noncapital financing activities	150	138	12	9%
Capital financing activities	59	(6)	65	1083%
Investing activities	<u>1</u>	<u> </u>	<u>1</u>	100%
Net increase	68	3	65	2167%
Cash and cash equivalents:				
Beginning of year	<u>23</u>	<u>20</u>	<u>3</u>	15%
End of year	<u><u>\$91</u></u>	<u><u>\$23</u></u>	<u><u>\$68</u></u>	296%

The largest source of cash flows from noncapital financing activities in 2003 is from state appropriations of \$146 million as compared to \$137 million in 2002. The increase in cash flow from noncapital financing activities in 2003 is due to the increase of \$9 million in state appropriation receipts.

Cash flows from capital financing activities increased by \$65 million to \$59 million. The 2003 cash flow from financing activities resulted primarily from \$77 million in net bond proceeds less \$16 million in construction, buildings, and equipment acquisitions.

Cash flows from investing activities increased primarily from an increase in interest received on investments of \$1 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2003, the System's cost of fixed assets exceeded \$214 million. Net of accumulated depreciation, the System's capital assets at June 30, 2003, total approximately \$117 million. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$19 million or a 19% increase over June 30, 2002. The increases were primarily in construction in progress, buildings, and equipment. The additions were financed substantially through long-term obligations.

**LOUISIANA COMMUNITY AND
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Management's Discussion and Analysis (Concluded)

Debt Administration

Under the terms of its capital leases, the System will make annual minimum lease payments in 2004 of \$312,263 including principal and interest.

All lease covenants have been met.

See notes 13 and 14 to the financial statements for details relating to changes in and the composition of long-term liabilities and capital leases.

During the year ended June 30, 2003, the System issued a series of bond issues totaling \$117,840,000 through facilities corporations for its Baton Rouge Community College, Bossier Parish Community College, and South Louisiana Community College campuses. Proceeds of these bond issues are to be used primarily for construction of facilities on each of these campuses. A total of \$68 million in restricted cash and cash equivalents and \$40 million in restricted investments remained at June 30, 2003, for construction.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

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

- Changes in tuition or fees
- Changes in state appropriations
- Changes in federal grant programs
- Significant new or additional capital appropriations
- New revenue bonds
- Renovations and new constructions to facilities

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our legislature, state officials, the Louisiana Legislative Auditor's Office, patrons, and other interested parties with a general overview of Louisiana Community and Technical College System's finances and to demonstrate the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the financial officer at (225) 219-8784.

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

**Statement of Net Assets
June 30, 2003**

ASSETS

Current assets:

Cash and cash equivalents (note 2)	\$22,767,261
Receivables, net (note 4)	21,315,056
Due from state treasury	503,791
Due from federal government	15,009,804
Inventories	1,493,277
Prepayments	149,765
Other current assets	29,863
Total current assets	<u>61,268,817</u>

Noncurrent assets:

Restricted assets:

Cash and cash equivalents (note 2)	68,086,065
Investments (note 3)	42,391,056
Notes receivable (net) (note 5)	17,552
Capital assets (net) (note 6)	116,909,212
Other noncurrent assets	1,303,295
Total noncurrent assets	<u>228,707,180</u>
Total assets	<u>289,975,997</u>

LIABILITIES

Current liabilities:

Accounts payable and accruals (note 10)	23,800,612
Due to state treasury	421,771
Deferred revenues (note 11)	7,881,356
Amounts held in custody for others	245,014
Compensated absences payable (note 14)	2,384,185
Capital lease obligations (notes 14)	70,170
Bonds payable (note 14)	32,000
Other current liabilities	91,200
Total current liabilities	<u>34,926,308</u>

(Continued)

The accompanying notes are an integral part of this statement.

**LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, 2003**

LIABILITIES (CONT.)

Noncurrent liabilities:

Compensated absences payable (note 14)	\$12,533,164
Capital lease obligations (notes 14)	4,105,000
Bonds payable (net) (note 14)	118,326,849
Other noncurrent liabilities	65,564
Total noncurrent liabilities	<u>135,030,577</u>
Total liabilities	<u>169,956,885</u>

NET ASSETS

Invested in capital assets, net of related debt	98,249,922
Restricted for:	
Nonexpendable (note 15)	3,153,171
Expendable (note 15)	4,345,362
Unrestricted	<u>14,270,657</u>

Total net assets	<u><u>\$120,019,112</u></u>
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(Concluded)

The accompanying notes are an integral part of this statement.

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

**Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2003**

OPERATING REVENUES

Student tuition and fees (net of scholarship allowances of \$18,783,196)	\$36,893,857
Federal grants and contracts	90,847,829
State and local grants and contracts	12,148,964
Nongovernmental grants and contracts	1,141,701
Sales and services of educational departments	1,499,817
Auxiliary enterprise revenues (net of scholarship allowances of \$255,260)	4,092,064
Other operating revenues	1,768,539
Total operating revenues	<u>148,392,771</u>

OPERATING EXPENSES

Educational and general:	
Instruction	120,143,368
Public service	2,517,545
Academic support	26,210,523
Student services	24,931,055
Institutional support	47,139,091
Operations and maintenance of plant	22,584,881
Depreciation	7,359,862
Scholarships and fellowships	33,741,244
Auxiliary enterprises	4,538,111
Other operating expenses	233,797
Total operating expenses	<u>289,399,477</u>

OPERATING LOSS (141,006,706)

NONOPERATING REVENUES (Expenses)

State appropriations	145,508,017
Gifts	188,127
Investment income	1,052,006
Interest expense	(253,128)
Other nonoperating revenues	403,918
Net nonoperating revenues	<u>146,898,940</u>

(Continued)

The accompanying notes are an integral part of this statement.

**LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses, and
Changes in Net Assets, 2003**

INCOME BEFORE OTHER REVENUES AND EXPENSES	\$5,892,234
Capital appropriations	8,244,960
Capital grants and gifts	99,635
Additions to permanent endowment	23,398
Other expenses, net	<u>(279,001)</u>
INCREASE IN NET ASSETS	13,981,226
NET ASSETS - BEGINNING OF YEAR (Restated) (note 16)	<u>106,037,886</u>
NET ASSETS - END OF YEAR	<u><u>\$120,019,112</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

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

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003**

CASH FLOWS FROM OPERATING ACTIVITIES:

Tuition and fees	\$43,217,877
Grants and contracts	71,614,379
Payments to suppliers	(75,933,659)
Payments for utilities	(6,510,280)
Payments to employees	(133,572,581)
Payments for benefits	(28,353,131)
Payments for scholarships and fellowships	(22,062,177)
Auxiliary enterprise charges	4,252,733
Sales and services of educational departments	1,497,275
Other receipts	2,990,253
Net cash used by operating activities	<u>(142,859,311)</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:**

State appropriations	146,961,008
Gifts and grants for other than capital purposes	2,319,190
Private gifts for endowment purposes	47,598
TOPS receipts	1,005,321
TOPS disbursements	(840,383)
Direct lending receipts	3,442,043
Direct lending disbursements	(3,442,043)
Federal Family Education Loan Program receipts	5,400,472
Federal Family Education Loan Program disbursements	(5,400,472)
Student organization agency transactions	1,165
Other receipts	154,327
Net cash provided by noncapital financing sources	<u>149,648,226</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Capital appropriations received	9,999
Capital grants and gifts received	99,635
Proceeds from capital debt	116,996,158
Purchases of capital assets	(13,332,390)
Principal paid on capital debt and leases	(103,364)
Interest paid on capital debt and leases	(2,855,793)
Bond issuance costs	(179,560)
Other payments	(190,222)
Net cash provided by capital financing activities	<u>100,444,463</u>

(Continued)

The accompanying notes are an integral part of this statement.

**LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2003**

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received on investments	\$811,133
Purchase of investments	(39,873,359)
Net cash provided by investing activities	<u>(39,062,226)</u>
Net increase in cash and cash equivalents	68,171,152
Cash and cash equivalents at beginning of the year, restated for prior period adjustment	<u>22,682,174</u>
Cash and cash equivalents at end of the year	<u><u>\$90,853,326</u></u>

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

Operating loss	(\$141,006,706)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Noncash gift expense	61,470
Depreciation expense	7,359,862
Loss on disposal of assets	(48,767)
Changes in assets and liabilities:	
(Increase) in accounts receivable, net	(17,323,167)
(Increase) in inventories	(30,337)
Decrease in prepaid expenses	4,429
(Increase) in other assets	(27,452)
Increase in accounts payable	5,925,829
Increase in deferred revenue	1,082,251
Increase in amounts held in custody for others	18,507
Increase in compensated absences	1,098,446
Increase in other liabilities	26,324
NET CASH USED BY OPERATING ACTIVITIES	<u><u>(\$142,859,311)</u></u>

Noncash Transactions

Capital appropriations for construction of buildings	\$8,234,961
Accrued interest payable recorded as construction in progress	615,585
Unrealized appreciation on investments	141,633

(Concluded)

The accompanying notes are an integral part of this statement.

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

Notes to the Financial Statements
As of and for the Year Ended June 30, 2003

INTRODUCTION

The Louisiana Community and Technical College System is a publicly supported institution of higher education. The system is a component unit of the State of Louisiana, within the executive branch of government. The system is under the management and supervision of the Board of Supervisors of the Louisiana Community and Technical College System; however, the annual budget of the system, and changes to the degree programs, and departments of instruction of the individual institutions require the approval of the Louisiana Board of Regents of Higher Education. The board of supervisors is comprised of 15 members appointed for six-year terms by the governor, with the consent of the Senate, and two student members appointed for one-year terms. One student member is selected by and from a council composed of the student body presidents of the system's community colleges, and one student member is selected by and from a council composed of the student body presidents of the system's technical college campuses. As a state institution, operations of the system's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature. The chief executive officer of the system is the president.

The Louisiana Community and Technical College System includes all programs of public post-secondary vocational/technical training and the institutions of higher education that offer associate degrees but not baccalaureate degrees. The system is comprised of seven community colleges--Baton Rouge Community College (BRCC), Bossier Parish Community College (BPCC), Delgado Community College, Elaine P. Nunez Community College, Louisiana Delta Community College, River Parishes Community College, and South Louisiana Community College (SLCC)--and the Louisiana Technical College, which includes 42 campuses throughout the state.

Student enrollment for the community and technical college system for the 2002 fall semester totaled 31,346 full-time equivalent students. During fiscal year 2003, the community and technical college system had approximately 4,029 faculty and staff.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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. 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 system has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board statements.

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Notes to the Financial Statements (Continued)

However, three of the community colleges each have a nongovernmental blended component unit (the Baton Rouge Community College Facilities Corporation, the South Louisiana Community College Facilities Corporation, and the Campus Facilities, Inc., for BPCC), which are reported under Financial Accounting Standards Board Statement No. 117.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The Louisiana Community and Technical College System 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 Louisiana Community and Technical College System.

Annually, the State of Louisiana issues a comprehensive annual financial report, which includes the activity contained in the accompanying financial statements. Those basic financial statements are audited by the Louisiana Legislative Auditor.

Criteria described in GASB 2100 were used to evaluate whether potential component units should be blended with the system, discretely reported, disclosed in the notes to the financial statements, or excluded from the reporting entity. This evaluation was made to identify those component units for which the system is financially accountable and other organizations for which the nature and significance of their relationships with the system are such that exclusion would cause the financial statements of the system to be misleading or incomplete.

- The South Louisiana Community College Facilities Corporation is a nonprofit corporation formed in December 2001 to provide funds and oversee construction for the SLCC campus. The corporation has been blended into the SLCC financial statements and, as such, has been appropriately included in the accompanying financial statements. The SLCC Facilities Corporation has a June 30 year-end and audited financial statements for the corporation may be obtained at 908 Ember Drive, New Iberia, Louisiana 70560.
- Campus Facilities, Inc., is a nonprofit organization formed in May 2001 to provide funds for and oversee construction of the campus for BPCC. The corporation has been blended into the BPCC financial statements and, as such, has been appropriately included in the accompanying financial statements. Campus Facilities, Inc., has a December 31 year-end and

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Notes to the Financial Statements (Continued)

audited financial statements for Campus Facilities, Inc., may be obtained at 2719 Airline Drive, North Bossier Parish, Louisiana 71111.

- Baton Rouge Community College Facilities Corporation is a nonprofit corporation formed in February 2002 to provide funds and oversee construction of the campus for BRCC. The corporation has been blended into the BRCC financial statements and, as such, has been appropriately included in the accompanying financial statements. BRCC Facilities Corporation has a June 30 year-end and audited financial statements for the corporation may be obtained at 5310 Florida Boulevard, Baton Rouge, Louisiana 70806.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the system is considered a special-purpose government engaged only in business-type activities. Accordingly, the Louisiana Community and Technical College System's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

D. BUDGET PRACTICES

The appropriation made for the General Fund of the Louisiana Community and Technical College System is an annual lapsing appropriation established by legislative action and by Title 39 of the Louisiana Revised Statutes. The statute requires that the budget be approved by the Board of Regents for Higher Education and certain legislative and executive agencies of state government. Budget revisions are granted by the Joint Legislative Committee on the Budget. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; (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.

**LOUISIANA COMMUNITY AND
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Notes to the Financial Statements (Continued)

The budget amounts for fiscal year 2002-2003 include the original approved budget and subsequent amendments approved as follows:

	Board of Supervisors of Community and Technical College	Baton Rouge Community College	Bossier Parish Community College
Original approved budget	\$41,590,102	\$11,447,604	\$16,027,917
Increases:			
State General Fund (Direct)	300,000	1,374,788	519,278
Fees and self-generated		500,000	
Total budgeted amounts	<u>\$41,890,102</u>	<u>\$13,322,392</u>	<u>\$16,547,195</u>

**E. CASH AND CASH EQUIVALENTS
AND INVESTMENTS**

Cash includes cash on hand, demand deposits, and interest-bearing demand deposits. Cash equivalents include certificates of deposit and all highly liquid investments with a maturity of three months or less when purchased. Under state law, the system 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 system may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

In accordance with Louisiana Revised Statute (R. S.) 49:327, the system is authorized to invest funds in direct United States Treasury obligations, United States government agency obligations, and money market funds. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. Investments are maintained in investment accounts in external foundations as authorized by policies and procedures established by the Board of Regents and are reported at fair value in accordance with GASB Statement 31. Changes in the carrying value of investments, resulting from unrealized gains and losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. For purposes of the Statement of Cash Flows, the system considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Delgado Community College	Elaine P. Nunez Community College	River Parishes Community College	South Louisiana Community College	Louisiana Delta Community College	Louisiana Technical College
\$48,422,986	\$6,705,320	\$2,809,161	\$4,113,319	\$1,980,859	\$127,301,816
2,871,913	338,801	40,000	159,464	44,000	599,000
1,955,000	350,000				
<u>\$53,249,899</u>	<u>\$7,394,121</u>	<u>\$2,849,161</u>	<u>\$4,272,783</u>	<u>\$2,024,859</u>	<u>\$127,900,816</u>

**LOUISIANA COMMUNITY AND
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Notes to the Financial Statements (Continued)

F. INVENTORIES

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

G. RESTRICTED CASH AND INVESTMENTS

Cash and investments that are externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets are reported as restricted cash and investments. Restricted investments also consist of endowments and similar type accounts for which donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity.

H. 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 system'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 and depreciable land improvements costing \$100,000 or more are capitalized and infrastructure costing \$3,000,000 or more is required to be capitalized. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Computer software purchased for internal use with depreciable costs of \$1,000,000 or more are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings, 20 years for depreciable land improvements, and 3 to 10 years for most movable property (equipment, including capitalized costs for computer software).

I. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

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Notes to the Financial Statements (Continued)

J. COMPENSATED ABSENCES

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

Upon separation of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and non-classified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave 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, an employee will be paid for any time 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. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and capital lease obligations with contractual maturities greater than one year and (2) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

L. NET ASSETS

The system's net assets are classified as follows:

1. Invested in capital assets, net of related debt consist of the system's total investment in capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or other borrowings attributable to the acquisition, construction, or improvement of those assets.

**LOUISIANA COMMUNITY AND
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Notes to the Financial Statements (Continued)

2. Restricted net assets - nonexpendable consist of endowments and similar type funds for which donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
3. Restricted net assets - expendable consist of resources that the system is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
4. Unrestricted net assets consist of resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the system 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 system's policy is to first apply the expense toward unrestricted resources, then toward restricted resources.

M. CLASSIFICATION OF REVENUES AND EXPENSES

The system 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 (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; and (3) 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 system 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 (1) payments to vendors for goods or services; (2) payments to employees for services; and (3) payments for employee benefits.

**LOUISIANA COMMUNITY AND
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Notes to the Financial Statements (Continued)

2. Nonoperating expenses include transactions resulting from financing activities, capital acquisitions, and investing activities.

N. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for services (tuition and fees) provided by the system 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, 2003, the system has cash and cash equivalents (book balances) of \$90,853,326 as follows:

Petty cash	\$37,173
Demand deposits	18,468,836
Certificates of deposit	635,997
Other	<u>71,711,320</u>
Total	<u><u>\$90,853,326</u></u>

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

Current assets	\$22,767,261
Noncurrent assets	<u>68,086,065</u>
Total	<u><u>\$90,853,326</u></u>

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. At June 30, 2003, the system has \$45,655,854 in deposits (collected bank balances) that are secured from risk in the following manner:

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Notes to the Financial Statements (Continued)

	Cash	Certificates of Deposit	Other	Total
Bank balances (collected balances):				
Insured or collateralized with securities held by the entity or its agent in the entity's name - GASB Category 1	\$23,133,590	\$108,318		\$23,241,908
Collateralized with securities held by the pledging institution's trust department or agent in the entity's name - GASB Category 2	5,674,285	280,339		5,954,624
Uncollateralized, including any securities held for the entity but not in the entity's name - GASB Category 3			\$16,459,322	16,459,322
Total bank balances	<u>\$28,807,875</u>	<u>\$388,657</u>	<u>\$16,459,322</u>	<u>\$45,655,854</u>

In addition to the collected bank balances at June 30, 2003, the system has cash equivalents consisting of repurchase agreements with a market value of \$50,995,559 and Federal Home Loan Bank (FHLB) Discount Notes with a market value of \$4,256,439. The credit risk of GASB Codification Section 150.125 was applied to the system's investments and cash equivalents. The FHLB Discount Notes are considered Category 1, insured or registered, or securities held by the entity or its agent in the entity's name. The repurchase agreements are considered to be uninsured and unregistered and are held by the broker or dealer or by its trust department or agent but not in the entity's name (GASB Category 3).

3. INVESTMENTS

At June 30, 2003, the system has investments totaling \$42,391,056 as follows:

Repurchase agreements	\$39,874,805
Money market funds	103,956
Investments held by private foundation	259,581
Mutual funds	<u>2,152,714</u>
Total investments	<u>\$42,391,056</u>

These investments are reported at fair market value. They are reported on the Statement of Net Assets as noncurrent assets - investments. Investments held by private foundations are managed in accordance with the terms outlined in management agreements executed between the system colleges and their respective foundations. The system's colleges are voluntary participants.

The credit risk of GASB Codification Section 150.125-126 was applied to the system's investments. Repurchase agreements of \$39,874,805 and money market funds of \$103,956 are

**LOUISIANA COMMUNITY AND
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Notes to the Financial Statements (Continued)

investments uninsured and unregistered and are held by the broker or dealer by its trust department or agency but not in the entity's name (GASB Category 3). Investments held by private foundations totaling \$259,581 and mutual funds totaling \$2,152,714 were not categorized.

4. RECEIVABLES

Receivables are shown on Statement A net of an allowance for doubtful accounts at June 30, 2003. These receivables are composed of the following:

	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Student tuition and fees	\$7,512,045	(\$792,496)	\$6,719,549
Auxiliary enterprise	147,108		147,108
Federal, state and private grants and contracts	11,707,630		11,707,630
Other	2,740,769		2,740,769
Total	<u>\$22,107,552</u>	<u>(\$792,496)</u>	<u>\$21,315,056</u>

There is no noncurrent portion of accounts receivable.

5. NOTES RECEIVABLE

Notes receivable are comprised of loans to students under the Federal Perkins Loan and miscellaneous private student loan programs. Loans are no longer issued under the Federal Perkins Loan program, but collections are still made on outstanding loans.

Notes receivable are shown on Statement A net of an allowance for doubtful accounts at June 30, 2003. These receivables are composed of the following:

Type	Notes Receivable	Allowance for Doubtful Accounts	Notes Receivable (Net)	Noncurrent Portion
Federal Perkins loans	\$55,580	(\$50,500)	\$5,080	\$5,080
Miscellaneous private student loans	12,472		12,472	12,472
Total	<u>\$68,052</u>	<u>(\$50,500)</u>	<u>\$17,552</u>	<u>\$17,552</u>

**LOUISIANA COMMUNITY AND
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Notes to the Financial Statements (Continued)

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the fiscal year ended June 30, 2003, follows:

	Balance July 1, 2002	Prior Period Adjustment	Adjusted Balance July 1, 2002
Capital assets not being depreciated:			
Land	\$12,385,502	(\$196,906)	\$12,188,596
Construction in progress	5,384,651		5,384,651
Total capital assets not being depreciated	17,770,153	(196,906)	17,573,247
Capital assets, being depreciated:			
Land improvements	1,940,190		1,940,190
Buildings	125,813,499	4,616,216	130,429,715
Furniture, fixtures, and equipment	40,629,711	84,800	40,714,511
Total capital assets, being depreciated	168,383,400	4,701,016	173,084,416
Less accumulated depreciation for:			
Land improvements	(1,200,066)		(1,200,066)
Buildings	(62,064,138)	(558,475)	(62,622,613)
Furniture, fixtures, and equipment	(28,813,361)	(65,302)	(28,878,663)
Total accumulated depreciation	(92,077,565)	(623,777)	(92,701,342)
Total capital assets, being depreciated, net	76,305,835	4,077,239	80,383,074
Capital assets, net	\$94,075,988	\$3,880,333	\$97,956,321

The capitalization policy of the Louisiana Division of Administration, Office of Statewide Reporting and Accounting Policy (OSRAP), is to include only those assets with an original acquisition cost of \$5,000 or more for depreciable equipment and \$100,000 or more for buildings and depreciable land improvements. In addition, under OSRAP's policy, library collections with a total acquisition cost of less than \$5 million are not capitalized and depreciated. GASB Statement No. 34 requires the recognition of depreciation on capital assets, resulting in the recognition of accumulated depreciation for current and prior years.

The June 30, 2002, balance of capital assets has been adjusted by \$3,880,333 to reflect prior period adjustments resulting from the correction of prior year errors. Of that net amount, \$4,102,000 relates to a building classified as "Assets Under Capital Lease" in the prior year financial statements. In the current year, that amount is being reclassified as "Capital Assets" and appropriately included in this footnote. Since this is a reclassification among asset accounts, there is no affect on net assets.

<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance June 30, 2003</u>
\$1,963,396			\$14,151,992
<u>18,900,189</u>	<u>(\$7,202,370)</u>		<u>17,082,470</u>
20,863,585	(7,202,370)	NONE	31,234,462
192,200			2,132,390
366,506	7,202,370		137,998,591
<u>5,529,052</u>		<u>(\$2,801,868)</u>	<u>43,441,695</u>
<u>6,087,758</u>	<u>7,202,370</u>	<u>(2,801,868)</u>	<u>183,572,676</u>
(95,623)			(1,295,689)
(3,405,816)			(66,028,429)
<u>(4,140,078)</u>		<u>2,444,933</u>	<u>(30,573,808)</u>
(7,641,517)	NONE	2,444,933	(97,897,926)
<u>(1,553,759)</u>	<u>7,202,370</u>	<u>(356,935)</u>	<u>85,674,750</u>
<u>\$19,309,826</u>	<u>NONE</u>	<u>(\$356,935)</u>	<u>\$116,909,212</u>

**LOUISIANA COMMUNITY AND
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Notes to the Financial Statements (Continued)

Because the system does not have any infrastructure that exceeds the \$3,000,000 threshold for capitalization, no infrastructure has been capitalized.

7. PENSION PLANS

Plan Description. Substantially all employees of the system 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 members of the Louisiana State Employees Retirement System (LASERS). Both plans are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. TRS 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 TRS 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 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 system are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8% (TRS) and 7.5% (LASERS) of covered salaries. The state is required to contribute 13.1% of covered salaries to TRS and 14.1% of covered salaries to LASERS. The State of Louisiana, through the annual appropriation to the system, funds the system's employer contribution. The system's employer contributions to TRS for the years ended June 30, 2003, 2002, and 2001 were \$9,181,342, \$8,657,227, and \$8,723,631, respectively, and to LASERS for the years ended June 30, 2003, 2002, and 2001 were \$2,875,992, \$2,390,120, and \$2,191,599, respectively, equal to the required contributions for each year.

8. 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 was designed to aid colleges in recruiting employees who may not be expected to remain in the 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.

**LOUISIANA COMMUNITY AND
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Notes to the Financial Statements (Continued)

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 system are 13.1% of the covered payroll. The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRS pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by the 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 \$2,326,948 and \$1,420,565, respectively, for the year ended June 30, 2003.

**9. POSTEMPLOYMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The system provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the system's employees become eligible for these benefits if they reach normal retirement age while working for the system. 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 system. The system recognizes the cost of providing these benefits to retirees (system's portion of premiums) as an expense when paid during the year. The cost for the year ended June 30, 2003, of providing those benefits for 928 retirees is not separable from the cost of providing benefits for the 2,019 active employees. Benefits provided for retirees and active employees totaled \$6,123,609 for the year ended June 30, 2003.

**LOUISIANA COMMUNITY AND
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Notes to the Financial Statements (Continued)

10. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2003:

Vendor payables	\$17,601,721
Accrued salaries and payroll deductions	3,474,959
Accrued interest payable	615,585
Student payables	1,962,899
Other	<u>145,448</u>
Total payables	<u><u>\$23,800,612</u></u>

11. DEFERRED REVENUES

The following is a summary of deferred revenues at June 30, 2003:

Prepaid tuition and fees	\$7,766,189
Other	<u>115,167</u>
Total deferred revenues	<u><u>\$7,881,356</u></u>

12. COMPENSATED ABSENCES

At June 30, 2003, employees of the system have accumulated and vested annual, sick, and compensatory leave of \$7,069,922, \$7,533,325, and \$314,102, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

13. LEASE OBLIGATIONS

Operating Leases

For the year ended June 30, 2003, the total rental expense for all operating leases is \$3,755,984. The following is a schedule by years of future minimum annual rental payments required under operating leases:

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Notes to the Financial Statements (Continued)

Nature of Operating Lease	Fiscal Year							Total Minimum Payments Required
	2004	2005	2006	2007	2008	2009-13	2014-18	
Office space	\$2,368,152	\$1,857,962	\$111,127	\$90,154	\$22,169	\$24,386	\$26,825	\$4,500,775
Equipment	64,694	51,264						115,958
Other	55,179	55,538	55,915	56,311	20,727			243,670
Total	<u>\$2,488,025</u>	<u>\$1,964,764</u>	<u>\$167,042</u>	<u>\$146,465</u>	<u>\$42,896</u>	<u>\$24,386</u>	<u>\$26,825</u>	<u>\$4,860,403</u>

Capital Leases

The system records items under capital leases as assets and obligations in the accompanying financial statements. The following is a schedule of future minimum lease payments under these capital leases, together with the present value of minimum lease payments at June 30, 2003:

Fiscal Year Ending June 30:	
2004	\$312,263
2005	313,720
2006	310,158
2007	311,397
2008	312,313
2009-2013	1,559,975
2014-2018	1,552,956
2019-2023	1,538,750
2024-2028	1,537,900
2029-2030	609,950
Total minimum lease payments	<u>8,359,382</u>
Less - amount representing interest	<u>(4,184,212)</u>
Present value of net minimum lease payments	<u>\$4,175,170</u>

Lessor - Operating Lease

Leasing operations of the Louisiana Community and Technical College System consist of Baton Rouge Community College's leasing of property for the purposes of providing bookstore operations to students. The estimated cost, accumulated depreciation, and carrying amount of the system's investment in operating lease property as of June 30, 2003, is \$141,682, \$17,286, and \$124,396, respectively. This includes estimated values, which are based on the ratio of the square footage of the space leased to the total square footage of the building.

**LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2003:

<u>Nature of Operating Lease</u>	<u>2004</u>	<u>2005</u>	<u>Minimum Future Rentals</u>
Office space	<u>\$29,583</u>	<u>\$2,500</u>	<u>\$32,083</u>

Minimum future rentals do not include contingent rentals that may be received as stipulated in the lease contracts. Contingent rentals received by Baton Rouge Community College from operating leases for the year ended June 30, 2003, were \$110,493.

14. LONG-TERM LIABILITIES

The following is a summary of bonds and other long-term debt transactions of the system for the year ended June 30, 2003:

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2003</u>	<u>Portion Due Within One Year</u>
Bonds payable and capital leases:					
Bonds payable	\$276,000	\$118,113,849	(\$31,000)	\$118,358,849	\$32,000
Capital lease obligations	<u>4,247,535</u>		<u>(72,365)</u>	<u>4,175,170</u>	<u>70,170</u>
Total bonds payable and capital leases	<u>4,523,535</u>	<u>118,113,849</u>	<u>(103,365)</u>	<u>122,534,019</u>	<u>102,170</u>
Other liabilities:					
Compensated absences payable	13,817,813	6,031,528	(4,931,992)	14,917,349	2,384,185
Other noncurrent liabilities		<u>65,564</u>		<u>65,564</u>	
Total other liabilities	<u>13,817,813</u>	<u>6,097,092</u>	<u>(4,931,992)</u>	<u>14,982,913</u>	<u>2,384,185</u>
Total long-term liabilities	<u>\$18,341,348</u>	<u>\$124,210,941</u>	<u>(\$5,035,357)</u>	<u>\$137,516,932</u>	<u>\$2,486,355</u>

Details of all debt outstanding at June 30, 2003, follow:

Bonds Payable

As presented on Statement A, at June 30, 2003, bonds payable total \$118,358,849 of which \$32,000 is current and the remaining \$118,326,849 is noncurrent. Included in the noncurrent portion is \$273,849, which represents net unamortized bond premium.

**LOUISIANA COMMUNITY AND
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STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

Detailed summaries, by issues, of all bonded debt outstanding at June 30, 2003, including interest of \$645,705, follow:

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2002</u>
Delgado Community College:			
Series 1970-A	January 15, 1970	\$521,000	\$159,000
Series 1970-B	January 15, 1970	391,000	117,000
Baton Rouge Community College - 2002 Serial Bonds	December 31, 2002	55,000,000	
Bossier Parish Community College - 2002 Serial Bonds	April 18, 2002	45,000,000	
South Louisiana Community College - 2002 Term Bonds	October 1, 2002	<u>17,840,000</u>	<u></u>
Total		<u>\$118,752,000</u>	<u>\$276,000</u>

The annual requirements to amortize all bonds outstanding at June 30, 2003, including interest of \$117,203,783, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$32,000	\$5,873,824	\$5,905,824
2005	33,000	5,872,864	5,905,864
2006	500,000	5,866,992	6,366,992
2007	510,000	5,855,359	6,365,359
2008	526,000	5,841,994	6,367,994
2009-2013	4,964,000	28,945,732	33,909,732
2014-2018	21,895,000	26,101,579	47,996,579
2019-2023	29,720,000	19,391,761	49,111,761
2024-2028	38,770,000	10,833,551	49,603,551
2029-2032	<u>21,135,000</u>	<u>2,620,131</u>	<u>23,755,131</u>
Total	<u>\$118,085,000</u>	<u>\$117,203,787</u>	<u>\$235,288,787</u>

Issue (Redeemed)	Outstanding June 30, 2003	Maturities	Interest Rates	Future Interest Payments June 30, 2003
(\$18,000)	\$141,000	2000-2010	3%	\$17,430
(13,000)	104,000	2000-2010	3%	12,690
55,000,000	55,000,000	2014-2032	5.0% - 5.375%	61,710,804
45,000,000	45,000,000	2004-2027	4.2% - 5.25%	42,584,570
<u>17,840,000</u>	<u>17,840,000</u>	2006-2029	2.1% - 4.75%	<u>12,878,293</u>
<u><u>\$117,809,000</u></u>	<u><u>\$118,085,000</u></u>			<u><u>\$117,203,787</u></u>

**LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

Capital Lease Obligations

Capital lease obligations at June 20, 2003, in the amount of \$4,175,170 are detailed in note 13.

Accrued Compensated Absences Payable

Accrued compensated absences payable at June 30, 2003, in the amount of \$14,917,349 are detailed in note 12.

15. RESTRICTED NET ASSETS

The system has the following restricted net assets at June 30, 2003:

Nonexpendable:	
Endowments	\$2,627,677
Student Life Center Maintenance Reserve	<u>525,494</u>
Total nonexpendable	<u><u>\$3,153,171</u></u>
Expendable:	
Student fees	\$1,800,106
Endowed professorships and scholarships	594,628
Debt service	1,001,792
Preventive maintenance and plant funds	305,831
Donations restricted for scholarships	47,717
Third party scholarships	70,921
Building use fee	87,659
Other	<u>436,708</u>
Total expendable	<u><u>\$4,345,362</u></u>

16. RESTATEMENT OF BEGINNING NET ASSETS

The beginning net assets as reflected on Statement B has been restated to reflect the correction of errors in the prior report. The effect of the restatement is as follows:

**LOUISIANA COMMUNITY AND
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STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

Net assets at June 30, 2002	\$106,063,054
Reclassifications and adjustments for prior year errors	<u>(25,168)</u>
Net assets at July 1, 2002	<u><u>\$106,037,886</u></u>

**17. CONTINGENT LIABILITIES AND
RISK MANAGEMENT**

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by appropriation from the state's General Fund. The system is involved in nine lawsuits at June 30, 2003, that are being handled by contract attorneys. In the opinion of legal counsel, the possibility that the system will incur a liability in seven of the cases is remote. For the remaining two cases, legal counsel has estimated a probable loss of \$62,000. This amount has been accrued in the financial statements.

18. FOUNDATIONS

The accompanying financial statements do not include the accounts of the following foundations:

Baton Rouge Community College Foundation, Incorporated
Bossier Parish Community College Foundation
Delgado Community College Foundation
Nunez Community College Foundation
River Parishes Community College Foundation, Incorporated
Louisiana Delta Community College Foundation
Louisiana Technical College:
Northeast Louisiana Technical Institute Foundation, Limited
Tallulah Foundation
Sowela Technical Institute Foundation, Limited
Sullivan Vocational Foundation, Incorporated

These foundations are separate corporations whose financial statements are subject to audit by independent certified public accountants.

Certain colleges of the system have contracted with their respective foundations to invest the colleges' Endowed Professorship Program endowment funds, which were created in accordance with R.S. 17:3384. The Endowed Professorship Program endowment funds are established for \$100,000 each, with \$60,000 of private contributions and \$40,000 of state matching portion allocated by the Board of Regents for Higher Education. At June 30, 2003, the foundations hold in custody \$259,581 of state Endowed Professorship Program funds.

**LOUISIANA COMMUNITY AND
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STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

Amounts invested by private foundations for the system are included as investments not categorized in the disclosures in note 3.

19. DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the college to authorize for expenditure 75% of the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

At June 30, 2003, net appreciation of \$46,285 is available to be spent, which is restricted to specific purposes.

Funds are invested and spent according to the guidelines established by the Board of Regents, provided that the maximum spending shall not exceed 5% of the market value of program assets averaged for the previous five-year period and no more than 60% of the funds can be invested in equities.

20. DEFERRED COMPENSATION PLAN

Certain employees of the system 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.

21. RELATED PARTY TRANSACTIONS

Delgado Community College entered into a capital lease transaction with the Delgado Community College Foundation to finance the building of the City Park Campus Student Life Center. The term of the lease is 30 years with interest payments commencing April 1, 2000. The interest is paid semiannually and principal payments are made annually commencing October 1, 2000. The system records this capital lease as an asset and an obligation in the accompanying financial statements. This capital lease is included in note 13.

22. ALTERNATIVE FINANCING AGREEMENTS

Bossier Parish Community College (BPCC)

On December 13, 2001, the Louisiana State Bond Commission approved the issuance of up to \$45,000,000 in bonds for the purpose of constructing a new BPCC campus. On April 18, 2002, the Louisiana Government Facilities and Community Development Authority issued \$45,000,000 in revenue bonds on behalf of Campus Facilities, Inc., a nonprofit organization. Pursuant to terms of a Ground Lease agreement, effective April 1, 2002, the corporation has leased the land from the Board of Supervisors of the Louisiana Community and Technical

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

Notes to the Financial Statements (Continued)

College System. The lease term expires on January 1, 2028. In accordance with the provisions of the facilities lease, the corporation, on behalf of the board, is developing and constructing new facilities that will be leased back to the board for use by the students, faculty, and staff of the community college.

Future monies appropriated to the Louisiana Community and Technical College System will be used to fund the annual lease payments.

South Louisiana Community College (SLCC)

On May 16, 2002, the Louisiana State Bond Commission approved the issuance of up to \$20,000,000 in bonds for the purpose of constructing a new SLCC campus. On October 29, 2002, the Lafayette Public Trust Financing Authority issued \$17,840,000 in revenue bonds on behalf of the South Louisiana Community College Facilities, Inc., a nonprofit organization. Pursuant to terms of a Ground Lease agreement effective October 29, 2002, the corporation has leased the land from the Board of Supervisors of the Louisiana Community and Technical College System. The lease term expires on October 1, 2028. In accordance with the provisions of the facilities lease, the corporation, on behalf of the board, is developing and constructing new facilities that will be leased back to the board for use by the students, faculty, and staff of the community college.

Future monies appropriated to the Louisiana Community and Technical College System will be used to fund the annual lease payments.

Baton Rouge Community College (BRCC)

On May 16, 2002, the Louisiana State Bond Commission approved the issuance of up to \$65,000,000 in bonds for the purpose of constructing and furnishing new campus buildings and for renovating existing buildings on property adjacent to the BRCC campus. In December 2002, the Louisiana Government Environmental Facilities and Community Development Authority issued \$55,000,000 in revenue bonds on behalf of the BRCC Facilities Corporation, Inc., a nonprofit organization. Pursuant to the terms of a Ground Lease agreement, effective December 1, 2002, the corporation has leased the land from the Board of Supervisors of the Louisiana Community and Technical College System. The lease term expires on December 1, 2032. In accordance with the provisions of the facilities lease, the corporation, on behalf of the board, is developing and constructing new facilities that will be leased back to the board for use by the students, faculty, and staff of the community college.

Future monies appropriated to the Louisiana Community and Technical College System will be used to fund the annual lease payments.

**LOUISIANA COMMUNITY AND
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STATE OF LOUISIANA**

Notes to the Financial Statements (Concluded)

23. SUBSEQUENT EVENTS

In July 2003, the Board of Directors of the Louisiana Local Government Environmental Facilities and Community Development Authority, pursuant to a Supplemental Trust Indenture and a Supplemental Loan and Assignment Agreement with BRCC, approved the issuance of Series 2003 Bonds in an amount not to exceed \$10,000,000. These bonds were issued on December 23, 2003.

In June 2003, \$10,000,000 in Louisiana Local Government Environmental Facilities and Community Development Authority Revenue Bonds were issued to provide additional funds to complete construction at BPCC through Campus Facilities, Inc. Principal payments on the Series 2003 Bonds begin December 1, 2005, and are due December 1, 2011. The bonds bear interest at varying rates ranging from 2.0% to 3.0%.

Effective August 2003, the Louisiana Delta Community College entered into a lease of the Coenen Building with the University of Louisiana at Monroe. The lease for \$425,000 per year is for three years with a two-year extension option.

Effective July 1, 2003, two former campuses of the Louisiana Technical College were reclassified as technical community colleges directly governed by the Board of Supervisors of the Louisiana Community and Technical College System. On May 14, 2003, the LCTCS Board of Supervisors appointed W. Stanley Leger and F. Travis Lavigne, Jr. as the first chancellors, effective July 1, 2003, for Sowela Technical Community College and L. E. Fletcher Technical Community College, respectively.

On July 14, 2003, Dr. Margaret Montgomery-Richard was appointed Chancellor of Louisiana Technical College. She replaced Dr. Jimmy Clarke, Acting Chancellor.

On July 9, 2003, Dr. Ray Garrity was appointed interim chancellor for Delgado Community College to replace Dr. J. Terrence Kelley who resigned effective August 31, 2003. On December 10, 2003, Dr. Alex Johnson was appointed the new chancellor for Delgado Community College.

**LOUISIANA COMMUNITY AND
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SUPPLEMENTAL INFORMATION SCHEDULE
For the Year Ended June 30, 2003**

SCHEDULE OF PER DIEM PAID BOARD MEMBERS

Supplementary information Schedule 1 presents the per diem paid board members for the year ended June 30, 2003. Louisiana Revised Statute 17:3206 provides that appointed members of the Board of Directors shall be entitled to \$50 per day for attendance at meetings of the board, meetings of committees appointed by the board on which the member serves, or while on business as assigned by and on behalf of the board. This schedule is prepared in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

**LOUISIANA COMMUNITY AND
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STATE OF LOUISIANA
BOARD OF SUPERVISORS OF COMMUNITY
AND TECHNICAL COLLEGES**

**Schedule of Per Diem Paid Board Members
For the Year Ended June 30, 2003**

	<u>NUMBER</u>	<u>AMOUNT</u>
Alexander, Charles	1	\$50
Barham, Erle	19	950
Chigbu, Gibson	7	350
Christopher, Dianne	22	1,100
Dejoie, Ava	6	300
Delaney, John	15	750
Estave, Robert	2	100
Franklin, Carl	5	250
Gaitan, Maria	4	200
Gallegos, Elizabeth	8	400
Johnson, Kathy	75	3,750
Knapp, Ann	32	1,600
McCotter, J. Kevin	22	1,100
Mellington, Brett	13	650
Smith, Stephen	5	250
Stone, F. Mike	12	600
Trist, Nicholas	13	650
Total		<u>\$13,050</u>

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain our report on compliance with laws and regulations and on internal control 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 reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



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

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December 18, 2003

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

**LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**
Baton Rouge, Louisiana

We have audited the basic financial statements of the Louisiana Community and Technical College System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 18, 2003. We did not audit the operations or financial statements of the South Louisiana Community College Facilities Corporation, the Baton Rouge Community College Facilities Corporation, or Campus Facilities, Inc., for the Bossier Parish Community College. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for the South Louisiana Community College Facilities Corporation, the Baton Rouge Community College Facilities Corporation, and Campus Facilities, Inc., is based on the reports of the other auditors. 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.

Compliance

As part of obtaining reasonable assurance about whether the Louisiana Community and Technical College System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Community and Technical College System's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters described below involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our

LEGISLATIVE AUDITOR

LOUISIANA COMMUNITY AND TECHNICAL COLLEGE SYSTEM STATE OF LOUISIANA

Compliance and Internal Control Report

December 18, 2003

Page 2

attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Louisiana Community and Technical College System's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Inadequate Preparation of Annual Fiscal Report

For the third consecutive year, the Louisiana Community and Technical College System (LCTCS) did not submit an accurate Annual Fiscal Report (AFR) to the Division of Administration, Office of Statewide Reporting and Accounting Policy (OSRAP) by the prescribed due date. Louisiana Revised Statute 39:79 authorizes the commissioner of administration to establish the format of each agency's AFR and requires a signed affidavit that the financial statements present fairly the financial position of the agency. In addition, good accounting controls require adequate supervision and review to ensure that financial statements are prepared accurately and submitted timely.

The LCTCS AFR was due to OSRAP on September 8, 2003, but was not submitted to OSRAP until September 18, 2003. The largest contributing factors to the untimely submission of the AFR were the implementation of a new accounting system, a lack of experienced accounting personnel, and inadequate review of the AFR before submission to OSRAP. In addition, LCTCS and the Louisiana Technical College (LTC) failed to properly review financial data before distributing that data to contracted CPAs for use in the CPAs' compilation of the LTC and system financial reports, failed to properly organize and maintain the data sent to the CPAs, and failed to obtain complete supporting documentation from the CPAs for the amounts reported in the financial statements.

As a result of these weaknesses, the following errors in financial reporting occurred, which required adjustments to the system AFR:

- Investments of \$39,978,761 were incorrectly reported as cash and cash equivalents.
- Restricted net assets of \$1,623,885 were incorrectly reported as unrestricted net assets.
- Retiree benefits were not reported consistently by all institutions of the system for the postretirement benefits footnote. This error resulted in \$4,589,274 of unrecorded retirement benefits.
- Amounts due from state and local agencies totaling \$2,239,531 were incorrectly reported as due from the federal government.
- Federal revenues and receivables were understated by \$2,035,618.

EXHIBIT A

LEGISLATIVE AUDITOR

LOUISIANA COMMUNITY AND TECHNICAL COLLEGE SYSTEM STATE OF LOUISIANA

Compliance and Internal Control Report

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- Optional Retirement System employer and employee contributions were overstated by \$705,533 and \$859,692, respectively.
- Funds drawn for prior year expenses of a federal program were recorded as current year revenues instead of being reported as an adjustment to beginning net assets.
- Expendable restricted net assets of \$40,455 were incorrectly reported as nonexpendable restricted net assets.

LTC errors caused adjustments to the system report as follows:

- Capital asset beginning balances for buildings and equipment did not agree to prior year ending balances. Buildings were overstated by \$1,560,000 and equipment was overstated by \$20,670,000.
- Amounts due from state and local agencies totaling \$4,974,166 were incorrectly reported as due from the federal government.
- Supporting documentation for the Teachers Retirement System employer contributions, Louisiana State Employees Retirement System employer contributions, and Optional Retirement System employer and employee contributions for the pension plans note disclosure were overstated by \$3,169,116, \$527,143, \$652,807, and \$878,590, respectively.
- Purchase order rentals of \$2,726,592 were incorrectly included in future minimum lease payments.
- Reductions to compensated absences for footnote presentation were not calculated in accordance with the instructions from OSRAP causing an understatement of additions and deletions to compensated absences of \$2,079,294.
- State, local, and nongovernmental grant revenues totaling \$1,481,305 were incorrectly reported as federal revenue.
- Federal revenues totaling \$812,811 were incorrectly reported as state and local grants and contracts revenue.
- Federal revenues were overstated by \$531,395.
- Cash was understated by \$86,670 for deposits in transit at June 30, 2003.

**LOUISIANA COMMUNITY AND
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Compliance and Internal Control Report

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Failure to maintain adequate control over the preparation of the AFR increases the risk of incomplete and untimely financial reports. In addition, the failure to submit an accurate AFR to OSRAP by the prescribed due date delays the compilation of the state's Comprehensive Annual Financial Report (CAFR) and could result in misstatement of the CAFR.

LCTCS management should develop and implement policies and procedures to ensure the timely submission of an accurate AFR to OSRAP. In addition, management should ensure that adequate supporting documentation for amounts reported in the financial statements is maintained. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

**Information Systems Control Weaknesses
in PeopleSoft Implementation**

The LCTCS did not have adequate planning and preparation over the implementation of the PeopleSoft information system, which was put into operation on July 1, 2002. Good internal controls require proper planning and preparation of an information system implementation to ensure the integrity of data entry, data processing, and financial reporting.

After implementation of the PeopleSoft information system (PeopleSoft), LCTCS had general control weaknesses as follows:

- For the first five months of the fiscal year, no official security administrator was on staff to monitor and control access to the system. Logical access was not assigned/restricted based on business-need only. No formal policies or procedures were in place for requesting the specific access needed and for monitoring of that access. As a result, users were allowed access to modify information in the accounting system for other campuses of LCTCS and users were given access to perform incompatible duties.
- Physical access to the server room at the system office is not restricted to only those personnel whose jobs require such access. The door to the server room is left open at all times because the central air system is not providing sufficient cool air to compensate for the heat generated from the servers. In addition, there is a lack of sufficient air conditioning in the computer center housed at the Louisiana Technical College (LTC), Baton Rouge campus.
- LCTCS does not have a disaster recovery plan and is not using offsite storage to store backup tapes.

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LOUISIANA COMMUNITY AND TECHNICAL COLLEGE SYSTEM STATE OF LOUISIANA

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- No centralized password rules are being enforced, such as minimum character length and set expiration dates.

In addition to these general control weaknesses, other weaknesses involving the implementation and configuration of PeopleSoft were noted in our audit as follows:

- LTC staff were not adequately trained on PeopleSoft and policies and procedures were not timely disseminated. As a result, transactions were entered improperly into the accounting system and LTC campus personnel were not able to access/generate necessary reports/queries to effectively monitor financial transactions.
- Payroll expenses for the fiscal year did not begin posting to the general ledger until April 2003. This prevented the system from being able to adequately monitor its financial position throughout the fiscal year.
- The human resource module does not have adequate system edits. It allows employees to earn negative leave balances, rather than preventing the input of leave if a negative balance will result, and the system continues to accrue leave for an employee on leave without pay.

LCTCS did not place sufficient emphasis on planning the PeopleSoft implementation to ensure that the system was functional and ready to support user needs and that the staff members were properly trained. Failure to adequately plan system implementation could result in inaccurate data and could place LCTCS and the state at risk for noncompliance with certain federal and state laws and regulations.

LCTCS management should implement policies and procedures to ensure that logical and physical security is restricted to users on a business-need-only basis, that backup tapes are stored offsite and a formal disaster recovery plan is adopted and periodically tested; that centralized password rules are designed and implemented, and that staff members are adequately trained. In addition, LCTCS should establish adequate internal control over information system activities to ensure the integrity of data entry, data processing, and financial reporting. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 2-3).

LEGISLATIVE AUDITOR

LOUISIANA COMMUNITY AND TECHNICAL COLLEGE SYSTEM STATE OF LOUISIANA

Compliance and Internal Control Report

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Louisiana Technical College - Inadequate Internal Control

The Louisiana Technical College (LTC) failed to maintain adequate internal control over its operations during the year to ensure that financial data are accurately and completely recorded, processed, and summarized; to ensure that errors and/or fraud are detected timely; and to ensure compliance with all applicable laws and regulations. Adequate internal controls should include periodic monitoring of revenues and expenses, timely reconciliations of bank accounts, and the timely dissemination of policies and procedures to LTC campus personnel for processing financial transactions.

Our audit procedures revealed the following internal control weaknesses:

- Revenue and expense transactions were not adequately monitored throughout the year. Fifteen of 26 LTC campuses audited for the fiscal year ended June 30, 2003, reported inadequate monitoring of these transactions because of the implementation of a new accounting system.
- The central bank account which records cash receipts and disbursements for the 42 LTC campuses was not reconciled timely. Bank reconciliations for July 2002 through May 2003 were not completed by the preparer until July 22, 2003. The June 2003 bank reconciliation was not completed until August 30, 2003.
- Policies and procedures for processing financial transactions, including requests for federal reimbursement, were not disseminated timely to campus personnel, which caused incorrect coding of transactions in the accounting system and delays in requests for reimbursement of program funds.

These conditions existed because LTC management did not place sufficient emphasis on establishing good internal controls over its operations. Inadequate monitoring of operations increases the risk that errors, fraud, or noncompliance with laws and regulations may occur and not be detected or corrected in a timely manner.

LTC management should establish and implement policies and procedures over its operations to provide accurate and complete financial data, timely detection of errors and/or fraud, and compliance with all applicable laws and regulations. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 4).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements

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in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described previously, we consider the finding on the inaccurate preparation of the annual fiscal report and information systems control weaknesses in PeopleSoft implementation to be material weaknesses.

Other Reports

A Performance Audit Division report was issued on the Louisiana Community and Technical College System on April 16, 2003. This report is available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor and can also be found on the Internet at www.lla.state.la.us/perform.htm.

Separate reports or management letters containing compliance and internal control findings were issued relating to the following community colleges and technical college campuses. Management's responses are also included in those reports. Copies of those reports are available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor, and those reports can also be found on the Internet at www.lla.state.la.us/f&c.shtml.

<u>Date</u>	<u>Community College</u>
November 5, 2003	South Louisiana Community College
December 10, 2003	Bossier Parish Community College
	<u>Louisiana Technical College</u>
April 9, 2003	Mansfield Campus
April 9, 2003	Ruston Campus
April 9, 2003	Sullivan Campus
April 9, 2003	Young Memorial Campus
April 23, 2003	Northwest Campus
April 30, 2003	Lafayette Campus
April 30, 2003	Teche Area Campus
May 21, 2003	Delta-Ouachita Campus
May 21, 2003	Gulf Area Campus
May 21, 2003	Lafourche Campus

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Date (Continued)

May 21, 2003

May 28, 2003

May 28, 2003

May 28, 2003

May 28, 2003

May 28, 2003

May 28, 2003

June 4, 2003

June 4, 2003

June 11, 2003

June 11, 2003

June 11, 2003

June 18, 2003

July 9, 2003

July 9, 2003

Louisiana Technical College (Continued)

Slidell Campus

Charles B. Coreil Campus

Florida Parishes Campus

Folkes Campus

Northeast Campus

Shelby M. Jackson Campus

Sidney N. Collier Campus

Evangeline Campus

Jefferson Campus

Hammond Area Campus

Jumonville Campus

River Parishes Campus

Shreveport-Bossier Campus

Alexandria Campus

Westside Campus

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

Respectfully submitted,



Grover C. Austin, CPA
First Assistant Legislative Auditor

AD:BQD:THC:dl

[LCTCS03]

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



LOUISIANA COMMUNITY & TECHNICAL COLLEGE SYSTEM

*Changing Lives,
Creating Futures*

December 15, 2003

Mr. Grover C. Austin, CPA
First Assistant Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

System President:

Walter G. Bumphus, Ph.D.

Dear Mr. Austin:

Officers:

Ann H. Knapp
Chair

Kathy Sellers Johnson
First Vice Chair

Brett J. Mellington
Second Vice Chair

Members:

Alden Andre
E. Edwards Barham
Gibson C. Chigbu
John E. DeLaney
Ava Dejoie
Carl H. Franklin
J. Kevin McCotter
Sean E. Reilly
Stephen C. Smith
F. Mike Stone
Nicholas P. Trist, Jr.

Student Members:

Angela Stanley
Cedric Washington

Louisiana
Community
& Technical
College System

822 Neosho Avenue
Baton Rouge, LA 70802

Phone 225-219-8700
Fax 225-219-8710

www.lctcs.net

Management of the Board of Supervisors of the Louisiana Community and Technical College System (LCTCS) concurs with the findings and recommendations related to "Inadequate Preparation of the Annual Fiscal Report."

Inadequate Preparation of the Annual Fiscal Report

Management concurs with the overall finding. Since the completion of the AFR and the submission to OSRAP, three CPAs have been added to the system accounting staff. This includes two former Legislative Auditors as well as the former director of OSRAP. In addition, the accounting section of the Louisiana Technical College has been fully staffed. The remaining item required to fully address the finding is to provide the system accounting staff with extensive PeopleSoft training. This will be scheduled in the late winter and early spring of 2004.

Management believes with the additional staff and a better understanding of GASB reporting requirements for the facility corporations, the timing and the quality of the submission for fiscal year 2004 will meet the requirements of both the OSRAP and the Legislative Auditor.

The person responsible for corrective action is Mr. F. Howard Karlton. His telephone number is (225) 219-8784. Please let me know if you need additional information.

Sincerely,

Jan Jackson

Senior Vice President for Finance and Administration

cc: Dr. Walter G. Bumphus
F. Howard Karlton, CPA



*Changing Lives,
Creating Futures*

LOUISIANA COMMUNITY & TECHNICAL COLLEGE SYSTEM

December 15, 2003

Mr. Grover C. Austin, CPA
First Assistant Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
P.O. Box 94397
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Community
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822 Neosho Avenue
Baton Rouge, LA 70802

Phone 225-219-8700
Fax 225-219-8710

www.lctcs.net

Dear Mr. Austin:

Management of the Board of Supervisors of The Louisiana Community and Technical College system (LCTCS) concurs with the finding and recommendations related to Information System Control Weaknesses in PeopleSoft Implementation.

Information Systems Control Weaknesses in PeopleSoft Implementation

Although Management concurs with the overall finding, clarification and corrective action will be provided below for the concerns individually as expressed in this finding:

- Because of limited Information Technology staffing, for the first five months of the year the data base administrator also served as security administrator and basic security procedures were in place. In December 2002 a dedicated, official security administrator was employed at which time tighter security and more formal procedures were implemented. Management is unaware of colleges allowing access to employees to modify information in the accounting system for other campuses or for performing incompatible duties. Since December of 2002, appropriate, documented security and procedures are in place for all PeopleSoft system users.
- Facility restrictions and environmental concerns prohibit server room security at the system office. Management is exploring purchase of an air conditioning unit for the server room to allow securing of the servers. A move to the new system office facility in the next few months will permanently correct this problem.
- LCTCS is storing backup tapes daily in a safe, purchased for this purpose, located in the System Office, which is offsite from the PeopleSoft Operations Center located at the Baton Rouge Technical College Campus. This avoids the cost of a third party contractor, but management will explore this option. Management has identified funds and is reviewing installation of a duplicate operations center in the new System Office facility.

- Management is implementing the password rules of the Office of Information Technology (OIT). It is also exploring the possibility of a third party contractor to help meet all requirements until PeopleSoft Version 8 is implemented.
- Although, PeopleSoft training was available to all LTC staff and additional training was purchased by the LTC, management concurs that all LTC staff did not take advantage of, or benefit from the training. Management of the LTC is committed to ensure that appropriate personnel attend all future available PeopleSoft training sessions.
- In the first year of implementation of PeopleSoft, payroll expenses for the system office began posting to general ledger in October 2002, however LTC payroll did not post to general ledger until April 2003, largely attributed to LTC staff turnover. All payrolls have been posting to general ledger since that time.
- The human resources module in PeopleSoft allows employees to earn negative balances. However, manual procedures for making corrections to the negative balances were put in place and provided to colleges early in implementation of PeopleSoft. Management is in the process of implementing an outside time-entry system which will shortly eliminate this problem.
- Although planning for implementation of any system never seems sufficient, the LCTCS in tandem with its implementation partner, placed extensive emphasis on planning the PeopleSoft implementation as mandated via its PeopleSoft RFP. However, management believes that insufficient human resources contributed to a lack of planned implementation execution and was the major contributor to perceived problems.

The person responsible for corrective action is James Hobbs. He can be contacted at 225.219.8728. Please let me know if you need further information.

Sincerely,

Jan Jackson
Senior Vice President for Finance and Administration

cc: Dr. Walter G. Bumphus
Mr. Howard Karlton, Jr.
Mr. James Hobbs, III



LOUISIANA TECHNICAL COLLEGE

Office of the Chancellor

Margaret Montgomery-Richard, Ph.D., Chancellor

150 Third Street – Suite 200

Baton Rouge, Louisiana 70801

Telephone: 225/219-9532

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CAMPUSES:

Acadian Campus
Alexandria Campus
Ascension Campus
Avoyelles Campus
Bastrop Campus
Baton Rouge Campus
Charles B. Coreil Campus
Delta Ouachita Campus
Evangeline Campus
Florida Parishes Campus
Folkes Campus
Gulf Area Campus
Hammond Area Campus
Huey P. Long Campus
Jefferson Campus
Jumonville Memorial
Campus
Lafayette Campus
Lafourche Campus
Lamar Salter Campus
Mansfield Campus
Morgan Smith Campus
Natchitoches Campus
North Central Campus
Northeast LA Campus
Northwest LA Campus
Oakdale Campus
River Parishes Campus
Ruston Campus
Sabine Valley Campus
Shelby M. Jackson
Campus
Shreveport Bossier
Campus
Sidney N. Collier Campus
Slidell Campus
Sullivan Campus
T. H. Harris Campus
Tallulah Campus
Teche Area Campus
West Jefferson Campus
Westside Campus
Young Memorial Campus

**An Equal Opportunity
College**

Grover C. Austin, CPA
First Assistant Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Inadequate Internal Control

Dear Mr. Austin:

The Louisiana Technical College has received the audit finding referenced above. Management concurs with this finding but would note that after a change in Financial Management was made in February 2003, major steps were taken to correct the internal control issues.

The steps included the issuance of monitoring tools for revenue, expenses and payroll leave balances, and the dissemination of policies and procedures to the Louisiana Technical College Campus personnel for processing financial transactions, which included procedures for reimbursement of federal funds. Management understands the importance of good internal controls over operations and has developed a plan that reinforces this commitment. The plan includes accounting workshops, professional development opportunities for the central/district/campus personnel, and the on-going review of existing policies and procedures, as well as the establishment and dissemination of new policies and procedures, as needed.

Responsibility for the development and implementation of this plan has been assigned to Beth Sigler, Vice Chancellor of Finance and Administration and Pam Diez, LTC Comptroller.

Sincerely,

Margaret Montgomery-Richard, Ph.D.
Chancellor

Cc: Dr. Walter G. Bumphus
LCTCS President

Ms. Beth Sigler, CPA