

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



FINANCIAL STATEMENT AUDIT  
FOR THE YEAR ENDED JUNE 30, 2010  
ISSUED DECEMBER 22, 2010

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

December 10, 2010

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of SOWELA Technical Community College, a college within the Louisiana Community and Technical College System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of SOWELA Technical Community College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1-B, the accompanying financial statements of SOWELA Technical Community College are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the Louisiana Community and Technical College System that is attributable to the transactions of SOWELA Technical Community College. They do not purport to, and do not, present fairly the financial position of the Louisiana Community and Technical College System as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of SOWELA Technical Community College as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2010, on our consideration of SOWELA Technical Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Schedule of Funding Progress for the Other Postemployment Benefits Plan are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. The Management Discussion and Analysis is not included in the audited financial statements for fiscal year ended June 30, 2010. We have applied certain limited procedures to the Schedule of Funding Progress for the Other Postemployment Benefits Plan on page 29, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

LBL:BH:EFS:THC:dl

SOWELA 2010

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

**Statement of Net Assets  
June 30, 2010**

**ASSETS**

Current assets:

Cash and cash equivalents (note 2)	\$5,428,206
Receivables, net (note 4)	901,834
Due from federal government (note 4)	96,292
Due from Louisiana Community and Technical College System	144,002
Inventories	8,869
Deferred charges and prepaid expenses	56,075
Total current assets	<u>6,635,278</u>

Noncurrent assets

Restricted investments (note 3)	46,763
Capital assets, net (note 5)	5,892,599
Total noncurrent assets	<u>5,939,362</u>
<b>Total assets</b>	<u><u>12,574,640</u></u>

**LIABILITIES**

Current liabilities:

Accounts payable and accruals (note 9)	788,870
Due to federal government	3,229
Deferred revenues (note 10)	915,112
Compensated absences payable (note 11)	62,787
Amounts held in custody for others	19,777
Total current liabilities	<u>1,789,775</u>

Noncurrent liabilities:

Compensated absences payable (note 11)	639,323
Other postemployment benefits payable (note 8)	3,399,800
Total noncurrent liabilities	<u>4,039,123</u>
<b>Total liabilities</b>	<u><u>5,828,898</u></u>

**NET ASSETS**

Invested in capital assets	5,892,599
Restricted for expendable (note 12)	744,896
Unrestricted	108,247
<b>TOTAL NET ASSETS</b>	<u><u>\$6,745,742</u></u>

The accompanying notes are an integral part of this statement.

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

**Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2010**

**OPERATING REVENUES**

Student tuition and fees	\$3,785,088
Less scholarship allowances	(1,731,466)
Net student tuition and fees	<u>2,053,622</u>
Federal grants and contracts	1,096,641
State and local grants and contracts	259,145
Sales and services of educational departments	47,438
Auxiliary enterprise revenue	12,198
Other operating revenues	800,632
Total operating revenues	<u>4,269,676</u>

**OPERATING EXPENSES**

Educational and general:	
Instruction	6,801,912
Academic support	573,601
Student services	1,356,497
Institutional support	2,949,173
Operations and maintenance of plant	825,198
Depreciation (note 5)	537,644
Scholarships and fellowships	3,352,633
Total operating expenses	<u>16,396,658</u>

**OPERATING LOSS** (12,126,982)

**NONOPERATING REVENUES**

State appropriations	5,978,446
Gifts	343,106
Federal nonoperating revenues - ARRA receipts	1,087,514
Federal nonoperating revenues	4,555,242
Net investment income	44,064
Net nonoperating revenues	<u>12,008,372</u>

(Continued)

The accompanying notes are an integral part of this statement.

**SOWELA TECHNICAL COMMUNITY COLLEGE  
LOUISIANA COMMUNITY AND TECHNICAL COLLEGE SYSTEM  
STATE OF LOUISIANA  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2010**

<b>LOSS BEFORE OTHER REVENUES</b>	(\$118,610)
Capital grants and gifts	<u>675,103</u>
<b>INCREASE IN NET ASSETS</b>	556,493
<b>NET ASSETS AT BEGINNING OF YEAR, RESTATED (note 13)</b>	<u>6,189,249</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$6,745,742</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

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

**Statement of Cash Flows  
For the Year Ended June 30, 2010**

**Cash Flows From Operating Activities:**

Tuition and fees	\$2,264,105
Grants and contracts	1,227,773
Sales and services of educational departments	47,438
Auxiliary enterprise receipts	12,198
Payments for employee compensation	(6,621,827)
Payments for benefits	(2,066,798)
Payments for utilities	(293,341)
Payments for supplies and services	(2,535,169)
Payments for scholarships and fellowships	(3,264,469)
Other receipts	674,668
Net cash used by operating activities	<u>(10,555,422)</u>

**Cash Flows From Noncapital Financing Activities:**

State appropriations	5,978,446
Federal nonoperating revenue - ARRA receipts	1,087,514
Gifts and grants for other than capital purposes	343,106
Pell grant receipts	4,555,242
TOPS receipts	201,154
TOPS disbursements	(201,154)
FEMA receipts	538,151
FEMA disbursements	(538,151)
Net cash provided by noncapital financing activities	<u>11,964,308</u>

**Cash Flows From Capital Financing Activities:**

Capital grants and gifts received	2,980
Purchases of capital assets	(649,029)
Net cash used by capital financing activities	<u>(646,049)</u>

**Cash Flows From Investing Activities:**

Interest received on investments	44,064
Purchase of investments	(46,763)
Net cash used by investing activities	<u>(2,699)</u>

(Continued)

The accompanying notes are an integral part of this statement.

**SOWELA TECHNICAL COMMUNITY COLLEGE  
LOUISIANA COMMUNITY AND TECHNICAL COLLEGE SYSTEM  
Statement of Cash Flows, 2010**

<b>Net increase in cash and cash equivalents</b>	\$760,138
<b>Cash and cash equivalents at beginning of year</b>	<u>4,668,068</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>\$5,428,206</u></u>
<b>Reconciliation of Net Operating Loss to</b>	
<b>Net Cash Used by Operating Activities:</b>	
Operating loss	(\$12,126,982)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	537,644
Changes in assets and liabilities:	
(Increase) in accounts receivable, net	(42,548)
Decrease in inventories	1,974
(Increase) in prepaid expenses	(2,551)
Increase in accounts payable	31,238
Increase in deferred revenue	228,848
Decrease in amounts held in custody for others	(6,410)
Decrease in compensated absences	(40,196)
Increase in other liabilities	<u>863,561</u>
<b>Net cash used by operating activities</b>	<u><u>(\$10,555,422)</u></u>
<b>Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions -</b>	
Capital grants and gifts	\$672,123

(Concluded)

The accompanying notes are an integral part of this statement.

## INTRODUCTION

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

The college is located at 3820 Senator J. Bennett Johnson Avenue, Lake Charles, Louisiana. The college offers associate of applied science degrees in the areas of accounting technology, aviation maintenance technology, commercial art, computer specialist-operations, computer technology-applications development specialist, computer technology-networking specialist, computer technology-programming specialist, criminal justice, drafting and design technology, industrial electronics technology, industrial instrumentation, office systems technology, and process technology; technical competency areas in dietary management; an associate in general studies; and a certificate in technical studies in heating, ventilation and air conditioning.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The accompanying financial statements have been prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to governmental units.

#### B. REPORTING ENTITY

Using the criteria established in GASB Codification Section 2100, the Division of Administration, Office of Statewide Reporting and Accounting Policy, has defined the governmental reporting entity to be the State of Louisiana. The college is part of the System, which is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state appropriations provide the largest percentage of total revenues; (4) the state issues bonds to finance certain construction; and (5) the colleges within the System primarily serve state residents. The accompanying financial statements present information only as to the transactions of the programs of the college.

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

### **C. BASIS OF ACCOUNTING**

For financial reporting purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the college's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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

### **D. BUDGETARY PRACTICES**

The State of Louisiana's appropriation to the college is an annual lapsing appropriation established by legislative action and Title 39 of the Louisiana Revised Statutes. The statute requires that the budget be approved by the Board of Regents for Higher Education and certain legislative and executive agencies of state government. Budget revisions are granted by the Joint Legislative Committee on the Budget. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are not prorated but are recognized in the succeeding year; (4) certain inventories are recorded as expenditures at the time of purchase. A formal budgetary comparison is not required by GASB reporting standards for proprietary funds and, therefore, budgetary comparisons are not presented.

### **E. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand and interest-bearing demand deposits. The institution considers certificates of deposit and all highly liquid investments with an original maturity of three months or less to be cash equivalents. Under state law, the college may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the college may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

**F. INVESTMENTS**

Investments reported on the Statement of Net Assets include a nonnegotiable certificate of deposit whose original maturity exceeds three months.

**G. INVENTORIES**

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

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

**I. DEFERRED REVENUES**

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

**J. NONCURRENT LIABILITIES**

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

**K. COMPENSATED ABSENCES**

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

Upon separation or termination of employment, both classified and nonclassified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and nonclassified personnel or their heirs are compensated

for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave which would otherwise have been used to compute years of service for retirement. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

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

#### **L. NET ASSETS**

The college's net assets are classified as follows:

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

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

#### **M. CLASSIFICATION OF REVENUES AND EXPENSES**

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

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

**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 is the difference between the stated charge for services (tuition and fees) provided by the college and the amount that is paid by students and/or third parties making payments on the students' behalf.

**O. USE OF ESTIMATES**

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

**2. CASH AND CASH EQUIVALENTS**

At June 30, 2010, the college has cash and cash equivalents (book balance) of \$5,428,206 as follows:

Petty cash	\$400
Interest-bearing demand deposits	<u>5,427,806</u>
Total	<u><u>\$5,428,206</u></u>

Custodial credit risk is the risk that in the event of a bank failure, the college's deposits may not be recovered. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the college or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties. At June 30, 2010, the college has \$5,524,720 in deposits (collected bank balances), which are secured from risk by federal deposit insurance plus pledged securities.

**3. INVESTMENTS**

At June 30, 2010, the college has restricted investments totaling \$46,763 as follows:

	<u>Fair Value June 30, 2010</u>	<u>Investment Maturities (Years)</u>	<u>Credit Quality Rating</u>
Nonnegotiable certificates of deposit	<u>\$46,763</u>	1.0	Not Applicable

This investment is a nonnegotiable certificate of deposit whose original maturity exceeds three months. The investment is reported at fair market value on the Statement of Net Assets as a noncurrent asset.

**4. RECEIVABLES**

Receivables are shown on the Statement of Net Assets, net of allowances for doubtful accounts at June 30, 2010. These receivables are composed of the following:

	<u>Receivables</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Student tuition and fees	\$276,850	(\$201,998)	\$74,852
State and private grants and contracts	126,791		126,791
Other	700,191		700,191
Total	<u>\$1,103,832</u>	<u>(\$201,998)</u>	<u>\$901,834</u>
Due from Federal Government	<u>\$96,292</u>	<u>NONE</u>	<u>\$96,292</u>

There is no noncurrent portion of receivables.

## 5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2010, follows:

	Balance June 30, 2009	Prior Period Adjustment	Adjusted Balance at June 30, 2009	Additions	Retirements	Balance June 30, 2010
Capital assets not being depreciated:						
Land	\$555,605		\$555,605			\$555,605
Construction-in-progress				\$213,537		213,537
Total capital assets not being depreciated	<u>\$555,605</u>	<u>NONE</u>	<u>\$555,605</u>	<u>\$213,537</u>	<u>NONE</u>	<u>\$769,142</u>
Other capital assets:						
Buildings	\$8,490,156		\$8,490,156			\$8,490,156
Less accumulated depreciation	(4,455,613)		(4,455,613)	(\$194,033)		(4,649,646)
Total buildings	<u>4,034,543</u>	<u>NONE</u>	<u>4,034,543</u>	<u>(194,033)</u>	<u>NONE</u>	<u>3,840,510</u>
Equipment	3,535,799	(\$57,791)	3,478,008	649,029	(\$140,887)	3,986,150
Less accumulated depreciation	(2,512,037)	11,558	(2,500,479)	(343,611)	140,887	(2,703,203)
Total equipment	<u>1,023,762</u>	<u>(46,233)</u>	<u>977,529</u>	<u>305,418</u>	<u>NONE</u>	<u>1,282,947</u>
Total other capital assets	<u>\$5,058,305</u>	<u>(\$46,233)</u>	<u>\$5,012,072</u>	<u>\$111,385</u>	<u>NONE</u>	<u>\$5,123,457</u>
Capital asset summary:						
Capital assets not being depreciated	\$555,605		\$555,605	\$213,537		\$769,142
Other capital assets, at cost	<u>12,025,955</u>	<u>(\$57,791)</u>	<u>11,968,164</u>	<u>649,029</u>	<u>(\$140,887)</u>	<u>12,476,306</u>
Total cost of capital assets	12,581,560	(57,791)	12,523,769	862,566	(140,887)	13,245,448
Less accumulated depreciation	<u>(6,967,650)</u>	<u>11,558</u>	<u>(6,956,092)</u>	<u>(537,644)</u>	<u>140,887</u>	<u>(7,352,849)</u>
Capital assets, net	<u>\$5,613,910</u>	<u>(\$46,233)</u>	<u>\$5,567,677</u>	<u>\$324,922</u>	<u>NONE</u>	<u>\$5,892,599</u>

## 6. PENSION PLANS

*Plan Description.* Substantially all employees of the college are members of two statewide, public employee retirement systems. Academic employees are generally members of the Teachers Retirement System of Louisiana (TRSL), and classified and unclassified state employees are generally members of the Louisiana State Employees' Retirement System (LASERS). Both plans are administered by separate boards of trustees. TRSL is a cost-sharing, multiple-employer defined benefit pension plan and LASERS is considered a single-employer defined benefit pension plan because the material portion of its activity is with one employer--the State of Louisiana. TRSL 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 TRSL after five years of service and with LASERS after 10 years of service. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The retirement systems issue annual publicly available financial reports that include financial statements and required supplementary information. The reports may be obtained by writing to the Teachers Retirement System of Louisiana, Post Office

Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446 and/or the Louisiana State Employees' Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or calling (225) 922-0600.

*Funding Policy.* The contribution requirements of plan members and the college are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in Louisiana Revised Statute (R.S.) 11:102. For fiscal year 2010, employees contributed 8% (TRSL) and 7.5% (LASERS) of covered salaries. Act 75 of the 2005 Regular Legislative Session now requires that employees hired on or after July 1, 2006, must contribute 8% of covered salaries to LASERS. The state is required to contribute 15.5% of covered salaries to TRSL and 18.6% of covered salaries to LASERS for fiscal year 2010. The State of Louisiana, through the annual appropriation to the college, funds the college's employer contribution. The college's employer contributions to TRSL for the years ended June 30, 2010, 2009, and 2008 were \$695,439; \$732,168; and \$710,287, respectively, and to LASERS for the years ended June 30, 2010, 2009, and 2008 were \$187,221; \$203,323; and \$202,342, respectively, equal to the required contributions for each year.

## **7. OPTIONAL RETIREMENT SYSTEM**

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

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

R.S. 11:927 set the contribution requirements of the plan members and the system equal to the contribution rates established for the regular retirement plan of TRSL. Total contributions by the college are 15.5% of the covered payroll for fiscal year 2010. The participant's contribution, which was 8% for fiscal year 2010, 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 TRSL pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial committee. The TRSL 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 TRSL. 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 \$64,838 and \$33,465, respectively, for the year ended June 30, 2010.

**8. OTHER POSTEMPLOYMENT BENEFITS**

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

*Funding Policy.* The plan is currently financed on a pay-as-you-go basis. The contribution requirements of plan members and the college are established and may be amended by R.S. 42:801-883. Employees do not contribute to their postemployment benefits cost until they become retirees and begin receiving those benefits. The retirees contribute to the cost of retiree healthcare based on a service schedule. Contribution amounts vary depending on what healthcare provider is selected from the plan and if the member has Medicare coverage. OGB offers three standard plans for both active and retired employees: the Preferred Provider Organization (PPO) plan, the Exclusive Provider Organization (EPO) plan, and the Health Maintenance Organization (HMO) plan. In addition, all plan members are offered the Medical Home HMO plan. Retired employees who have Medicare Part A and Part B coverage also have access to OGB Medicare Advantage plans that are offered on a calendar year basis. During calendar year 2009 and calendar year 2010, there were three HMO plans and two private fee-for-service (PFFS) plans offered by four companies.

Employees hired before January 1, 2002, pay approximately 25% of cost of medical coverage (except single retirees under age 65 pay approximately 25% of active employee cost). Employees hired on or after January 1, 2002, pay a percentage of the total contribution based on the following schedule:

<u>Service</u>	<u>Contributed Percentage</u>
Under 10 years	81%
10-14 years	62%
15-19 years	44%
20+ years	25%

SOWELA TECHNICAL COMMUNITY COLLEGE

Shown below are the total monthly premium rates in effect for the plan year 2009-10.

	PPO	EPO	HMO	Home Health Plan
<u>Active</u>				
Single	\$559	\$581	\$536	\$532
With Spouse	1,187	1,234	1,139	1,130
With Children	681	709	654	649
Family	1,251	1,301	1,201	1,192
<u>Retired, No Medicare and Re-employed Retiree</u>				
Single	\$1,039	\$1,081	\$998	\$990
With Spouse	1,835	1,909	1,762	1,748
With Children	1,158	1,204	1,111	1,102
Family	1,826	1,899	1,753	1,739
<u>Retired, with 1 Medicare</u>				
Single	\$338	\$351	\$324	\$322
With Spouse	1,249	1,299	1,199	1,189
With Children	585	608	562	557
Family	1,664	1,730	1,597	1,584
<u>Retired, with 2 Medicare</u>				
With Spouse	\$607	\$632	\$583	\$578
Family	752	782	722	716

	Medicare Advantage Plans - Calendar Year 2009				
	HMO			Private Fee-for-Service Plans	
	Humana	People's Health		Humana	Secure
		Vantage			Horizons
<u>Retired, with 1 Medicare</u> Single	\$137	\$142	\$178	\$174	\$270
<u>Retired, with 2 Medicare</u> With Spouse	\$274	\$284	\$356	\$348	\$539

	Medicare Advantage Plans - Calendar Year 2010				
	HMO			Private Fee-for-Service Plans	
	Humana	People's Health		Humana	Secure
		Vantage			Horizons
<u>Retired, with 1 Medicare</u> Single	\$149	\$142	\$198	\$165	\$199
<u>Retired, with 2 Medicare</u> With Spouse	\$298	\$284	\$396	\$330	\$397

OGB also provides eligible retirees Basic Term Life, Basic Plus Supplemental Term Life, Dependent Term Life, and Employee Accidental Death and Dismemberment coverage, which is underwritten by The Prudential Insurance Company of America. The total monthly premium is

approximately \$1 per thousand dollars of coverage of which the employer pays one-half of the premiums. Maximum coverage is capped at \$50,000 with a reduction formula of 25% at age 65 and 50% at age 70, with accidental death and dismemberment coverage ceasing at age 70 for retirees.

*Annual Other Postemployment Benefit Cost and Liability.* The college's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially based in accordance with GASB 45, which was implemented for the year ended June 30, 2008. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liability (UAAL). The total ARC for fiscal year 2010 is \$1,185,300 as set forth below:

Normal cost	\$594,200
30-year UAAL amortization amount	552,800
Interest	<u>38,300</u>
 ARC	 <u><u>\$1,185,300</u></u>

The following schedule presents the college's OPEB obligation for fiscal year 2010, the amount actually contributed to the plan, and changes in the college's net OPEB obligation to the OPEB plan:

Annual required contribution	\$1,185,300
Interest on net OPEB obligation	101,400
ARC adjustment	<u>(96,900)</u>
OPEB cost	1,189,800
Contributions made - current year retiree premiums	<u>(326,239)</u>
Change in net OPEB obligation	863,561
Beginning net OPEB obligations at June 30, 2009, as restated	<u>2,536,239</u>
Ending net OPEB obligation at June 30, 2010	<u><u>\$3,399,800</u></u>

The college's annual OPEB cost contributed to the plan using the pay-as-you-go method and the net OPEB obligation for the fiscal year ended June 30, 2010, and the preceding two fiscal years were as follows:

Fiscal Year Ended	OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	\$1,464,300	19.2%	\$1,183,039
June 30, 2009	1,667,816	18.9%	2,536,239
June 30, 2010	1,189,800	27.4%	3,399,800

*Funded Status and Funding Progress.* Act 910 of the 2008 Regular Session established the Post Employment Benefits Trust Fund effective July 1, 2008; however, during fiscal year 2010, neither the college nor the State of Louisiana contributed to it. Since no contributions were made, the college’s entire actuarial accrued liability of \$14,467,000 was unfunded.

The funded status of the plan, as determined by an actuary as of July 1, 2009, was as follows:

Actuarial accrued liability (AAL)	\$14,467,000
Actuarial value of plan assets	NONE
UAAL	<u>\$14,467,000</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll	\$4,495,900
UAAL as percentage of covered payroll	322%

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

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

In the July 1, 2009, OGB actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return and initial annual healthcare cost trend rate of 8.5 % and 9.6% for pre-Medicare and Medicare eligible employees, respectively, scaling down to ultimate rates of 5% per year. The RP 2000 Mortality Table was used in making actuarial assumptions. Retirement rate assumptions differ by employment group and date of plan participation. The state’s UAAL is being amortized over 30 years as a level percentage of projected payroll on an open basis.

**9. ACCOUNTS PAYABLE AND ACCRUALS**

Accounts payable and accruals at June 30, 2010, are as follows:

Vendors	\$282,596
Salaries and benefits	501,591
Other	<u>4,683</u>
Total	<u><u>\$788,870</u></u>

**10. DEFERRED REVENUES**

For the year ended June 30, 2010, the amount of tuition and fees, grants and contracts, and rental income recorded before the end of the fiscal year but related to the subsequent accounting period is as follows:

Tuition and fees	\$197,750
Grants and contracts	645,974
Rental income	<u>71,388</u>
Total	<u><u>\$915,112</u></u>

**11. COMPENSATED ABSENCES**

At June 30, 2010, employees of the college have accumulated and vested annual, sick, and compensatory leave benefits of \$422,206; \$279,866; and \$38, respectively, which were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements. The following is a schedule of changes in the liability associated with compensated absences:

Balance as of June 30, 2009	\$742,306
Additions	251,170
Reductions	<u>(291,366)</u>
Balance as of June 30, 2010	<u><u>\$702,110</u></u>
Amounts due within one year	<u><u>\$62,787</u></u>

**12. RESTRICTED NET ASSETS**

At June 30, 2010, the college has \$744,896 in restricted expendable net assets as follows:

Academic excellence fee	\$330,600
Building use fee	13,865
Operational fee	48,054
Vehicle registration fee	17,260
Scholarships	128,806
Student government	36,635
Grants and contracts	<u>169,676</u>
 Total	 <u><u>\$744,896</u></u>

Of the total restricted net assets at June 30, 2010, \$409,779 is restricted by enabling legislation.

**13. RESTATEMENT OF BEGINNING NET ASSETS**

The beginning net assets as reflected on Statement B have been restated to reflect the following adjustments:

Net Assets at June 30, 2009	\$6,224,477
Payroll accrual adjustment	75,685
Capital assets adjustment	(46,233)
Facilities Planning - receivable adjustment	(61,504)
Pell administrative fee correction	(2,196)
Accounts receivable correction	<u>(980)</u>
 Net Assets at June 30, 2009, restated	 <u><u>\$6,189,249</u></u>

**14. CONTINGENT LIABILITIES AND RISK MANAGEMENT**

Losses arising from judgments, claims, and similar contingencies would be paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by appropriation from the state's General Fund. The college is involved in one lawsuit at June 30, 2010, that is being handled by contract attorneys. In the opinion of legal counsel, the possibility that the college will incur a liability in this case is reasonably possible, with a possible loss estimated at \$80,000.

**15. FOUNDATION**

The accompanying financial statements do not include the accounts of the SOWELA Technical Community College Foundation, Incorporated. This foundation is not included because it does not meet criteria established by the Division of Administration, Office of Statewide Reporting and Accounting Policy, for determining component units included in the college system's

financial statement in accordance with GASB Statement 14, as amended by GASB Statement 39. This foundation is a separate corporation whose financial statements are subject to audit by independent certified public accountants.

**16. DEFERRED COMPENSATION PLAN**

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

**17. AMERICAN RECOVERY AND REINVESTMENT ACT**

American Recovery and Reinvestment Act expenses incurred in fiscal year 2010 consisted of salary expenses of \$1,087,514.

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

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

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

**Schedule of Funding Progress for the  
Other Postemployment Benefits Plan  
Fiscal Year Ended June 30, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Cost (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2007	NONE	\$14,449,300	\$14,449,300	0.0%	\$4,734,447	305%
July 1, 2008	NONE	17,578,700	\$17,578,700	0.0%	4,295,300	409%
July 1, 2009	NONE	14,467,000	\$14,467,000	0.0%	4,495,900	322%

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**OTHER REPORT REQUIRED BY**  
***GOVERNMENT AUDITING STANDARDS***

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





LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

December 10, 2010

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

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

We have audited the basic financial statements of SOWELA Technical Community College, a college within the Louisiana Community and Technical College System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered SOWELA Technical Community College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SOWELA Technical Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SOWELA Technical Community College's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SOWELA Technical Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

LBL:BH:EFS:THC:dl