

RECEIVED
LEGISLATIVE AUDITOR
04 JUL -1 PM 12:25

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.
FINANCIAL REPORT
DECEMBER 31, 2003

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/18/04

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.
LAKE CHARLES, LOUISIANA

December 31, 2003

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Title Page	
Table of Contents	2
FINANCIAL SECTION	
Report of Independent Auditors	3-4
Basic Financial Statements:	
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9-14
REPORT ON COMPLIANCE AND INTERNAL CONTROL	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit Performed in Accordance with Government Auditing Standards	15-16
Schedule of Findings and Questioned Costs	17-20

McELROY, QUIRK & BURCH

A Professional Corporation • Certified Public Accountants • Since 1925
800 Kirby Street • P.O. Box 3070 • Lake Charles, LA 70602-3070
337 433-1063 • Fax 337 436-6618 • Web page: www.mqb-cpa.com

Carl W. Comeaux, CPA
Barbara Hutson Gonzales, CPA
Martin L. Chehovsky, CPA, CFE
Robert M. Gani, CPA, MT
Mollie C. Broussard, CPA



Billy D. Fisher, CPA
Jason L. Guillory, CPA
Greg P. Naquin, CPA, CFP™
Joe G. Peshoff II, CPA, CVA

Charles P. Quirk, CPA, Retired
Otray J. Woods Jr., CPA, Inactive
Robert F. Cargile, CPA, Inactive
William A. Mancuso, CPA, Retired
Judson J. McCann Jr., CPA, Retired

CFE - Certified Fraud Examiner
MT - Masters of Taxation
CVA - Certified Valuation Analyst
CFP - Certified Financial Planner

R:\08301-08800\08459-0\2003\Financial Statements\Sowela FR.wpd

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Sowela Technical Institute Foundation, Ltd.
Lake Charles, Louisiana

We have audited the accompanying statement of financial position of Sowela Technical Institute Foundation, Ltd. (a nonprofit organization) as of December 31, 2003, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sowela Technical Institute Foundation, Ltd. as of December 31, 2003, and the changes in its net assets and its 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 May 28, 2004, on our consideration of Sowela Technical Institute Foundation, Ltd.'s internal control over financial reporting and on 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.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Ms. Elroy, Quirk & Burch

Lake Charles, Louisiana
May 28, 2004

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

STATEMENT OF FINANCIAL POSITION
December 31, 2003

ASSETS

Current assets:

Cash and cash equivalents	\$ 71,045
Investments	47,240
Pledges receivable, current	22,450
Interest receivable	<u>315</u>
Total current assets	<u>141,050</u>

Noncurrent assets:

Investments - restricted	37,933
Pledges receivable, noncurrent	<u>60,000</u>
Total noncurrent assets	<u>97,933</u>

Total assets \$ 238,983

LIABILITIES AND NET ASSETS

Liabilities \$ -

Net assets

Fund balance:	
Unrestricted	201,050
Temporarily restricted	35,233
Permanently restricted	<u>2,700</u>
Total net assets	<u>238,983</u>

Total liabilities and net assets \$ 238,983

The accompanying notes are an integral part of these statements.

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Combined Total</u>
Revenues, gains and other support:				
Contributions received in current period	\$ 120,105	\$ 31,100	\$ 2,700	\$ 153,905
Contributions received in prior periods (released from restriction)	3,600	(3,600)	-	-
In-kind revenue	39,500	-	-	39,500
Interest income	<u>128</u>	<u>1,733</u>	<u>-</u>	<u>1,861</u>
Total revenues, gains and other support	<u>163,333</u>	<u>29,233</u>	<u>2,700</u>	<u>195,266</u>
Functional expenses:				
Program services	4,400	-	-	4,400
Supporting services	<u>41,629</u>	<u>-</u>	<u>-</u>	<u>41,629</u>
Total functional expenses	<u>46,029</u>	<u>-</u>	<u>-</u>	<u>46,029</u>
Increase in net assets	117,304	29,233	2,700	149,237
Net assets at beginning of year	<u>83,746</u>	<u>6,000</u>	<u>-</u>	<u>89,746</u>
Net assets at end of year	<u>\$ 201,050</u>	<u>\$ 35,233</u>	<u>\$ 2,700</u>	<u>\$ 238,983</u>

The accompanying notes are an integral part of these statements.

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2003

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Expenses:			
Scholarships	\$ 4,400	\$ -	\$ 4,400
Postage	-	663	663
Print and reproduction	-	560	560
Public service announcement	-	39,500	39,500
Supplies	-	251	251
Miscellaneous	-	655	655
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 4,400</u>	<u>\$ 41,629</u>	<u>\$ 46,029</u>

The accompanying notes are an integral part of these statements.

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

STATEMENT OF CASH FLOWS
Year Ended December 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash donations received	\$ 71,140
Interest receivable	1,861
Payments of scholarships	(4,400)
Cash paid for supplies and services	<u>(2,129)</u>
Cash provided by operating activities	<u>66,472</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES	
Interest reinvested	(216)
Purchases of long-term investments	<u>(3,000)</u>
Cash (used in) investment activities	<u>(3,216)</u>
Net increase in cash	63,256
Cash and cash equivalents:	
Beginning of year	<u>7,789</u>
End of year	<u>\$ 71,045</u>
Reconciliation of changes in net assets to net cash provided by operating activities:	
Increase in net assets	\$ 149,237
Adjustments to reconcile increase in net assets:	
(Increase) in pledges receivable	(82,450)
(Increase) in interest receivable	<u>(315)</u>
Net cash provided by operating activities	<u>\$ 66,472</u>

The accompanying notes are an integral part of these statements.

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 1. Organization and Purpose

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

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

Note 2. Summary of Significant Accounting Policies

Basis of accounting:

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

Basis of presentation:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows. As permitted by the statement, the Foundation does not use fund accounting.

NOTES TO FINANCIAL STATEMENTS

Accounting estimates:

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and cash equivalents:

The Foundation considers all liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents at December 31, 2003 consisted of demand deposits and money market accounts totaling \$10,917 and \$60,128, respectively.

Investments:

Investments, consisting of certificates of deposit, are stated at cost which approximates market value.

Restricted investments:

These investments consist of certificates of deposit restricted for various purposes as detailed in Note 5.

Promises to give/pledges:

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

NOTES TO FINANCIAL STATEMENTS

Capital assets:

Acquisitions of property and equipment in excess of \$500 are capitalized. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulated how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation:

Depreciation of property and equipment is provided for over the useful life of each asset based on the straight line method of recording depreciation expense. The estimated useful lives of such assets are summarized below:

Automobiles	3 years
-------------	---------

Revenue recognition:

In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Donor imposed restrictions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction.

If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

NOTES TO FINANCIAL STATEMENTS

Contributed services:

During the year ended December 31, 2003, public service announcements in the amount of \$39,500 were recognized as contributed services in the financial statements. However, no other amounts have been reflected in the statements for donated services since no objective basis is available to measure the value of such services. Nevertheless, a substantial number of hours, for which no value has been assigned or recognized, were volunteered by the board of commissioners and Sowela employees for various fund-raising events.

Functional allocation of expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support, revenue and expenses and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. All indirect costs have been allocated to the supporting services functional category.

Note 3. Cash and Cash Equivalents

The Foundation maintains demand deposits (cash) and money market accounts (cash equivalents) through local depository banks which are members of the Federal Reserve System. As of December 31, 2003, the Foundation's deposits of \$71,045 are entirely covered by FDIC insurance.

Note 4. Investments

Endowed donations and excess funds are invested in certificate of deposits through local depository banks which are members of the Federal Reserve System. As of December 31, 2003, the Foundation's certificate of deposits totaling \$85,173 are entirely covered by FDIC insurance.

The following schedule summarizes the investment return in the statement of activities for the year ended December 31, 2003. All investment return is classified as restricted.

Interest income	<u>\$ 1,734</u>
-----------------	-----------------

NOTES TO FINANCIAL STATEMENTS

Note 5. Restricted Investments

Restricted investments described in Note 2 as of December 31, 2003, are as follows:

	2003
Cash deposits:	
Scholarship funds	\$ 35,233
Endowed funds	2,700
Total restricted investments	\$ 37,933

Note 6. Pledges Receivable

Included in pledges receivable are the following unconditional promises to give:

	2003 Fund-raiser
Undesignated	\$ 58,450
Designated	24,000
Total unconditional pledges	\$ 82,450
Amounts due in:	
Less than one year	\$ 22,450
One to five years	60,000
Total pledges due	\$ 82,450

Based on management's expertise and prior experience, the Foundation does not discount pledges receivable.

Note 7. Capital Assets

A summary of capital assets is as follows:

Automobile	\$ 1,000
Less accumulated depreciation	1,000
Net capital assets	\$ -

NOTES TO FINANCIAL STATEMENTS

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose restrictions:	
Scholarships	\$ 35,234

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows for the year ended December 31, 2003:

ERA Scholarships	\$ 3,600
------------------	----------

Note 9. Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes as of December 31, 2003:

Scholarship endowment fund	\$ 2,700
----------------------------	----------

Note 10. Affiliation Agreement

The purpose of the Foundation is to receive, hold, invest, and administer property and to make expenditures to support programs and activities designed to advance, promote, or otherwise benefit Sowela Technical College (College). Because of the close association of the Foundation with the College, an affiliation agreement was entered into by both parties on May 25, 2000.

McELROY, QUIRK & BURCH

A Professional Corporation • Certified Public Accountants • Since 1925
800 Kirby Street • P.O. Box 3070 • Lake Charles, LA 70602-3070
337 433-1063 • Fax 337 436-6618 • Web page: www.mqb-cpa.com

Carl W. Comcaux, CPA
Barbara Hutson Gonzales, CPA
Martin L. Chehotsky, CPA, CFE
Robert M. Gani, CPA, MT
Mollie C. Broussard, CPA



Billy D. Fisher, CPA
Jason L. Guillory, CPA
Greg P. Naquin, CPA, CFPTM
Joe G. Peshoff II, CPA, CVA

Charles P. Quirk, CPA, Retired
Otray J. Woods Jr., CPA, Inactive
Robert F. Cargile, CPA, Inactive
William A. Mancuso, CPA, Retired
Judson J. McCann Jr., CPA, Retired

CFE - Certified Fraud Examiner
MT - Masters of Taxation
CVA - Certified Valuation Analyst
CFP - Certified Financial Planner

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Sowela Technical Institute Foundation, Ltd.
Lake Charles, Louisiana

We have audited the financial statements of Sowela Technical Institute Foundation, Ltd. (a nonprofit organization) as of and for the year ended December 31, 2003, and have issued our report thereon dated May 28, 2004. 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 Sowela Technical Institute Foundation, Ltd.'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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2003-03. We also noted certain immaterial instances of noncompliance, which we have reported to management of Sowela Technical Institute Foundation, Ltd. in a separate letter dated May 28, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sowela Technical Institute Foundation, Ltd.'s internal control over financial reporting in order 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 involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our 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 Sowela Technical Institute Foundation, Ltd.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-01 and 2003-02.

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 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 the 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, we believe none of the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Sowela Technical Institute Foundation, Ltd. in a separate letter dated May 28, 2004.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

M. Elroy, Quirk & Burch

Lake Charles, Louisiana

May 28, 2004

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2003

We have audited the financial statements of Sowela Technical Institute Foundation, Ltd. as of and for the year ended December 31, 2003, and have issued our report thereon dated May 28, 2004. 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. Our audit of the financial statements as of December 31, 2003 resulted in an unqualified opinion.

Section I - Summary of Auditor's Results

Report on Internal Control and Compliance Material to the Financial Statements

Internal control

Material weaknesses Yes No

Other conditions Yes No

Compliance

Compliance material to financial statements Yes No

(continued on next page)

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2003
(Continued)

Section II - Financial Statement Findings

Internal Control:

2003-01

Criteria: Effective internal control requires adequate segregation of duties among client personnel.

Condition: Because of the entity's size and the limited number of accounting personnel, it is not feasible to maintain a complete segregation of duties to achieve effective internal control.

Effect: Without proper segregation of duties, errors within the financial records or fraud could go undetected.

Recommendation: To the extent cost effective, duties should be segregated and management should attempt to mitigate this weakness by supervision and review procedures.

Response: Management has responded that it does not believe that it is cost effective to employ adequate personnel to achieve an adequate level of segregation of responsibilities. Management has implemented supervision and review procedures such as review and approval of supporting documents related to expenditures and periodic review of bank reconciliations.

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2003

(Continued)

2003-02 Scholarship Approval and Disbursement

Criteria: All approved scholarships and those awarded should be well documented.

Condition: Documentation of scholarships approved and awarded to deserving students of Sowela Technical College could be approved.

Effect: The Foundation is at a risk of loss if awarded scholarships are not documented appropriately. The application, approval and disbursement processes should be fully documented to insure that the Foundation funds are only utilized for purposes of the Foundation.

Recommendation: A formal policy for scholarship approval and disbursement should be developed and implemented to allow for detailed documentation of all scholarships awarded.

Response: Management agrees with the findings. Our policy regarding scholarships will be strengthened and stressed to all involved in the scholarship process. If compliance is not achieved through these steps the policy and procedures will be made more restrictive to ensure complete documentation and timely reimbursement.

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2003
(Continued)

Compliance Findings:

2003-03

Specific requirement: LA Revised Statute 39:1305 requires each political subdivision to prepare a comprehensive budget presenting a complete financial plan for each fiscal year.

Condition: No budget was prepared for the Foundation for the year ended December 31, 2003.

Effect: The Foundation is out of compliance with Louisiana law.

Recommendation: A budget should be prepared for 2004 and the years to follow.

Response: Management agreed that they should begin to prepare a budget in 2004 and years to follow.

McELROY, QUIRK & BURCH

A Professional Corporation • Certified Public Accountants • Since 1925
800 Kirby Street • P.O. Box 3070 • Lake Charles, LA 70602-3070
337 433-1063 • Fax 337 436-6618 • Web page: www.mqb-cpa.com

Carl W. Comeaux, CPA
Barbara Hutson Gonzales, CPA
Martin L. Chehorsky, CPA, CFE
Robert M. Gani, CPA, MT
Mollic C. Broussard, CPA



Billy D. Fisher, CPA
Jason L. Guillory, CPA
Greg P. Naquin, CPA, CFP™
Joe G. Peshoff II, CPA, CVA

Charles P. Quirk, CPA, Retired
Otray J. Woods Jr., CPA, Inactive
Robert E. Cargile, CPA, Inactive
William A. Mancuso, CPA, Retired
Judson J. McCann Jr., CPA, Retired

CFE - Certified Fraud Examiner
MT - Masters of Taxation
CVA - Certified Valuation Analyst
CFP - Certified Financial Planner

RECEIVED
LEGISLATIVE AUDITOR
04 AUG 13 AM 11:07

Board of Directors
Sowela Technical Institute Foundation, Ltd.
Lake Charles, Louisiana

In planning and performing our audit of the financial statements of Sowela Technical Institute Foundation, Ltd. (Foundation) for the year ended December 31, 2003, we considered the Foundation's internal control in order 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.

One of our commitments to you as part of our engagement is to present observations involving the internal control and other operational matters for your consideration. This letter does not affect our report dated May 28, 2004 on the financial statements of Sowela Technical Institute Foundation, Ltd. Our comments and recommendations are intended to improve the internal control. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

OVERVIEW

Internal control is a process - effected by an entity's board of directors, management, and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) reliability of financial reporting,
- (b) effectiveness and efficiency of operations, and
- (c) compliance with applicable laws and regulations.

SEGREGATION OF DUTIES

Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets is intended to reduce the opportunities to allow any person to be in a position to both perpetuate and conceal errors or fraud in the normal course of his or her duties.

Although the small size of the Foundation's office staff limits the extent of separation of duties, we believe certain steps have to be taken to help mitigate this condition.

CONTROLS OVER CASH

Cash is the most liquid of assets and has the highest risk for theft, embezzlement, and misappropriation. As a general rule, do not allow a single employee to handle a cash transaction from beginning to end. The following guidelines over cash controls are especially beneficial:

Different employees should perform the separate duties of signing checks, processing cash receipts and cash disbursements, and maintaining books of original entry.

Cash Receipts

- One employee, preferably the receptionist, should open the mail, make a control list of all receipts, and restrictively endorse all items received as "for deposit only." This would prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited.
- The receipts should then go to another employee for further processing and deposit to the bank on a timely basis.
- Then, someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited.

Cash Disbursements

- All cash disbursements should be made by check.
- To maintain stronger controls over cash disbursements, we suggest that invoices be canceled by stamping "PAID" on the face of the invoice immediately after payment.
- Also, bank reconciliations should be performed on a timely basis at the end of each month.

Supervisory Review and Approval

- We suggest that the unopened bank statements received in the mail be forwarded directly to the Director of Finance or other appropriate senior management. The Director should open and review the bank statements and copies of the canceled checks and investigate these strange or unusual items should any be found. Documentation of the review of the items should be made on the face of the bank statement.
- When supervisory review of accounting transactions and month end reconciliations is performed, the final approval by the Chief Financial Officer should be appropriately documented.

Management response:

Sowela Technical Institute Foundation, Ltd. has designated an employee of the administration office to open the mail and make a control list of all receipts and restrictively endorse all items received as "for deposit only", thereby, preventing any unauthorized endorsement should the checks be misplaced or lost before being deposited.

The checks are then forwarded to an employee of the business office who prepares a handwritten receipt from a sequentially numbered receipt book. The deposit is prepared by another employee of the business office and brought to the bank on a timely basis.

Another employee of the business office compares the deposit slips to the list of receipts to ensure that all funds reflected on the receipts are deposited.

All cash disbursements will be made by check.

To maintain stronger controls over cash disbursements, invoices are cancelled by stamping "PAID" on the face of the invoice immediately after payment.

Bank reconciliations will be performed on a timely basis at the end of each month.

Bank statements, unopened, are forwarded to the Director of Finance. The Director of Finance opens and reviews the bank statement and copies of the cancelled checks and investigates strange or unusual items should any be found. Documentation of the review of the items is noted on the faces of the bank statement.

Final approval of accounting transactions and month end reconciliations by the Director of Finance will be appropriately documented.

PLEDGE COLLECTIONS

Strong and effective controls over pledges receivable can be extremely critical to the survival of an organization. Essentially, a strong control system over pledges receivable includes firm organizational policy, an accurate accounting system that maintains agreement between the subsidiary ledger and the general ledger, and effective review and follow-up on individual accounts on a monthly basis. Adequate segregation of duties is also a very important factor because the responsibilities for acquiring the pledge, collections, write-off of pledges, and the related posting to the accounts receivable subsidiary should be separated as much as possible to create the best system of controls.

Management response:

Pledges received will be recorded by an employee of the Business Office. Another employee of the Business Office will review and follow up individual accounts on a monthly basis. Pledges not fulfilled will be written off.

ACCOUNTING MANUAL

During our audit, we noted that Sowela Technical Institute Foundation, Ltd. does not have a manual of accounting policies and procedures. The purposes of such a manual are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and will assist management in delegating and segregating duties. The manual should include:

- An organizational chart.
- Job descriptions, outlining duties and responsibilities.
- Descriptions of methods, procedures and accounting principles to be followed including explanations and examples of principle transactions.
- A chart of accounts with detailed explanation of the items to be included therein.
- Any other documents or forms for which uniformity of use is desired.

We recommend that the Foundation develop a comprehensive accounting policies and procedures manual. In the process of developing the manual, we recommend a comprehensive review of the existing accounting system, offering management the opportunity to eliminate or improve procedures and thereby create a more efficient and effective system.

Management response:

A comprehensive accounting policies and procedures manual will be developed. In addition, a comprehensive review of the existing accounting system will be made.

RECORDING OF CERTAIN TRANSACTIONS IN THE BOOKS OF ACCOUNTS

Sowela Technical Institute Foundation, Ltd. currently has only a verbal understanding for recording in-kind contributions of goods and contributed services. In order to define this area better and establish consistency, we suggest that the Foundation formalize a written policy for recognizing in-kind contributions of goods and services. The policy should specify a minimum dollar amount to be recorded and the method used to determine the fair market value of donated services or assets. This policy will be most beneficial in that it will allow for easier and more consistent accounting treatment for contributed goods and services.

Management response:

A written policy for recognizing in-kind contributions of goods and services will be formalized. The policy will specify a maximum dollar amount to be recorded and the method used to determine the fair market value of donated services or assets.

ORGANIZATIONAL STRUCTURE

Like many similar nonprofits, Sowela Technical Institute Foundation, Ltd. functions quite well with a relatively small staff. We noted that the Director of Finance has complete control of many responsibilities essential for the smooth and efficient operation of the Foundation's accounting functions. Skill and knowledge of the critical accounting system areas should not be centralized in any single employee, because this substantially increases the potential risk of loss in the event of that employee's incapacity or leaving the employment of the organization. We recommend that management ensure continuity of its accounting functions through an effective training program. Providing a mechanism that allows for other employees to back up one another can be a very effective means of accomplishing this objective. We suggest that periodic redistribution of responsibilities to appropriate employees and otherwise ensuring that there is a sufficient "backup knowledge base" in other employees will greatly benefit the Foundation in the event of a loss of a single critical employee.

Management response:

Management will provide a mechanism that allows for other employees to back up one another to ensure continuity of its accounting functions. Responsibilities will periodically be redistributed to ensure that there is a sufficient "back up knowledge base" in other employees.

Sowela Technical Institute Foundation, Ltd.

Page 7

We would like to take this opportunity to thank the management and staff of the Foundation for their assistance during the audit and their cooperation in the audit process. Also, we will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This report is intended solely for the information and use of members of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Ms Elroy, Quirk & Burch

Lake Charles, Louisiana

May 28, 2004