10331

LCTCS FACILITIES CORPORATION

Audit of Financial Statements

December 31, 2010

Contents

LAPORTE SEHRT
ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors
LCTCS Facilities Corporation

We have audited the accompanying statement of financial position of LCTCS Facilities Corporation (the Corporation) as of December 31, 2010, and the related statement of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 *Governmental 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LCTCS Facilities Corporation as of December 31, 2010, 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.

111 Veterans Memorial Boulevard, Suite 600, Metairie, LA 70005 · 504.835.5522 · Fax 504.835.5535
5100 Village Walk, Suite 300, Covington, LA 70433-4012 · 985.892.5850 · Fax 985.892.5956
Town Hall West, 10000 Perkins Rowe, Ste. 200, Baton Rouge, LA 70810-1797 · 225.296.5150 · Fax 225.296.5151
www.laporte.com

In accordance with *Government Auditing Standards*, we have also issued a report dated May 24, 2011, on our consideration of LCTCS Facilities Corporation's internal control over financial reporting and 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 the audit.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

May 24, 2011

LCTCS FACILITIES CORPORATION
Statement of Financial Position
December 31, 2010

Assets	
Current Assets	
Cash and Cash Equivalents - Administrative Fund	$ 3,228,770
Total Current Assets	3,228,770
Non-Current Assets	
Investments	226,746
Cash - Restricted for Debt Service	13,831,702
Cash - Restricted for Capital Purchases	97,751,933
Investments - Restricted for Capital Purchases	29,907,424
Land	3,700,261
Construction in Progress	1,961,721
Total Non-Current Assets	147,379,787
Other Assets	
Bond Financing Costs, Net	2,166,040
Land Purchase Option	67,550
Total Other Assets	2,233,590
Total Assets	$ 152,842,147
Liabilities and Net Assets	
Current Liabilities	
Accounts Payable	$ 439,718
Contracts Payable	256,185
Interest Payable	1,647,129
Total Current Liabilities	2,343,032
Long-Term Liabilities	
Bonds Payable	137,822,225
Total Long-Term Liabilities	137,822,225
Total Liabilities	140,165,257
Net Assets	
Unrestricted	12,676,890
Total Liabilities and Net Assets	$ 152,842,147

The accompanying notes are an integral part of these financial statements.

LCTCS FACILITIES CORPORATION
Statement of Activities
For the Year Ended December 31, 2010

Unrestricted Revenues	
Facilities Lease Rental Revenue	$ 17,960,742
Total Unrestricted Revenues	17,960,742
Expenses	
Program Services	
Interest Expense	3,458,170
Professional Fees	1,755,776
Amortization	199,807
Legal Fees	51,045
Supporting Services	
Miscellaneous	878
Meeting Expense	463
Total Expenses	5,466,139
Other Income (Loss)	
Interest Income	178,236
Realized Gain on Investments	1,141
Unrealized Loss on Investments	(76,326)
Total Other Income	103,051
Change in Net Assets	12,597,654
Net Assets, Beginning of Period	79,236
Net Assets, End of Period	$ 12,676,890

The accompanying notes are an integral part of these financial statements.

LCTCS FACILITIES CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2010

Cash Flows from Operating Activities	
Change in Net Assets	$ 12,597,654
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities	
Amortization	199,807
Amortization of Bond Premium	(371,339)
Unrealized Loss on Investments	76,326
Increase (Decrease) in:	
Accounts Payable	258,933
Contracts Payable	(68,316)
Interest Payable	917,920
Net Cash Provided by Operating Activities	13,610,985
Cash Flows from Investing Activities	
Change in Cash Restricted for Debt Service	(13,830,164)
Change in Cash Restricted for Capital Purchases	(95,610,434)
Purchases of Investments	(226,989)
Proceeds from Sale of Investments Restricted for Capital Purchases	29,970,687
Payment of Bond Financing Costs	(839,623)
Construction of Facilities	(1,961,721)
Payment of Land Purchase Option	(33,775)
Purchase of Land	(352,404)
Net Cash Used in Investing Activities	(82,884,423)
Cash Flows from Financing Activities	
Proceeds from Issuance of Bonds	71,127,122
Net Cash Provided by Financing Activities	71,127,122
Net Increase in Cash	1,853,684
Cash and Cash Equivalents, Beginning of Period	1,375,086
Cash and Cash Equivalents, End of Period	$ 3,228,770
Supplemental Disclosure of Cash Flow Information	
Cash Paid for Interest	$ 2,916,838

The accompanying notes are an integral part of these financial statements.

Note 1. Summary of Significant Accounting Policies

Nature of Organization

LCTCS Facilities Corporation (the Corporation) is a private, Louisiana non-profit corporation established in 2007 for the primary purpose of financing and constructing land and facilities for the Louisiana Community and Technical College System. Operations began October 1, 2009 upon receipt of bond proceeds described below.

The Corporation participated in a bond issuance by borrowing money from the Louisiana Local Government Environmental Facilities and Community Development Authority (the Issuer), which issued $19,290,000 in revenue bonds (Series 2009A), $45,280,000 in revenue bonds (Series 2009B) and $64,025,000 in revenue bonds (Series 2010) which will be payable solely from the revenues of the Corporation. The revenue bonds are issued pursuant to a Trust Indenture dated October 1, 2009, between the Issuer and the Bond Trustee. Louisiana Act 391 identifies the uses of the proceeds of the bonds as the purchase, acquisition, construction, design, development, renovation and equipping of land and facilities for the benefit of fourteen community and technical college campuses of the Louisiana Community and Technical College System and a statewide computer information system for the Board of Supervisors of the Louisiana Community and Technical College System (the Board).

Governmental Accounting Standards Board (GASB) No. 14, *The Financial Reporting Entity* requires inclusion of the Corporations financial statements in the Louisiana Community and Technical College System's (the Board) financial statements.

Basis of Accounting

The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America under the accrual basis of accounting. The accrual basis of accounting is the method of accounting under which liabilities and expenses are recorded as incurred, whether or not paid, and income is recorded when earned, whether or not received.

The Corporation uses various trust accounts created pursuant to trust indentures of the related bonds. The trust accounts, which are administered by the trustee bank, provide for the custody of assets, debt service payments and bond redemption requirements, and payment of administrative expenses.

Basis of Presentation

The financial statement presentation is in accordance with the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Accordingly, the Corporation reports 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. As of December 31, 2010, there were no temporarily or permanently restricted net assets.

Note 1. Summary of Significant Accounting Policies (Continued)

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Corporation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

In accordance with the *Not-for-Profit Entities* Topic of the FASB Accounting Standards Codification, the Corporation's investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statement of financial position. Unrealized and realized gains and losses are included in the change in net assets.

All investments held by the Corporation are restricted for debt service and construction costs. Under the terms of the various bond indentures or similar documents, various funds such as Project, Capitalized Interest, Debt Service and Administrative must be established and maintained. The bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum bond coverages.

Bond Premiums

Premiums resulting from the purchase of revenue bonds are amortized over the lives of the bonds under the effective interest method.

Bond Financing Costs, Net

Costs incurred with obtaining financing have been capitalized and are being amortized using the straight line method over the life of the bond financing arrangement. The Corporation's capitalized financing costs consisted of the following at December 31, 2010:

Bond Financing Costs	$ 2,412,300
Accumulated Amortization	(246,260)
Total	$ 2,166,040

Amortization expense related to this asset for the year ended December 31, 2010, was $199,807.

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes
The Corporation is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and comparable state law.

Fair Values of Financial Instruments
The Corporation has adopted the provisions of the *Fair Value Measurements and Disclosures* Topic of the FASB Accounting Standards Codification (ACS 820) for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

The Corporation's financial instruments are cash and cash equivalents, investments, accounts payable, contracts payable, interest payable and long-term debt. The recorded values of cash and cash equivalents and accounts payable approximate their fair values based on their short-term nature. The recorded values of investments and long-term debt are estimated based on the quoted market prices of the same or similar investments or issues.

ASC 820 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including the Corporation's own credit risk.

In addition to defining fair value, ASC 820 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 - Valuations based on inputs that are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

Note 1. Summary of Significant Accounting Policies (Continued)

Fair Values of Financial Instruments (Continued)
In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used during the year ended December 31, 2010.

Property and Equipment
Property and equipment are stated at cost at the date of acquisition.

Functional Allocation of Expenses
The costs of providing the Corporation's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 2. Investments

Investments consist of the following at December 31, 2010:

	Cost	Market
Municipal Bonds	$ 16,403,055	$ 16,311,488
Discount Notes	13,818,795	13,822,682
Total	$ 30,221,850	$ 30,134,170

Note 3. Land and Construction in Progress

Land

Purchased property is carried at cost. The breakdown of land by project as of December 31, 2010 is as follows:

L.E. Fletcher Technical Community College, Houma	$ 3,337,422
Florida Parishes Campus, Greensburg	247,418
Northwest Campus, Minden	115,421
Total	$ 3,700,261

In addition to land purchased during the year ended December 31, 2010, the Corporation also began construction projects at various campuses across the state. Construction in progress for the year ended December 31, 2010 totaled $1,961,721.

The Corporation has active construction projects at various campuses as of December 31, 2010. At year end, the Corporation's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
L.E. Fletcher Technical Community College, Houma	$ -	$ 19,098,000
Huey P. Long Campus, Minden	894,637	7,402,363
Florida Parishes Campus, Greensburg	-	8,100,000
Gulf Area Campus, Abbeville	-	5,448,900

In connection with one of the 2009 land purchases, the Corporation entered into a land purchase option agreement and agreed to pay a non-refundable sum of $135,100, in four equal annual installments, for the option to purchase a new plot of land at a specific price. During 2010, the Corporation made the second installment of $33,775. The remaining payments in association with the purchase option are as follows:

Year	Payment
2011	$ 33,775
2012	33,775
Total	$ 67,550

Note 4. Bonds Payable

Bonds payable is composed of the following at December 31, 2010:

Revenue Bonds	
Series 2009A	
The Bank of New York Mellon Trust Company, N.A. Dated October 1, 2009; bearing interest at 4.00% per annum; interest only payments due semi-annually on March 1 and October 1; principal and interest due in six semi-annual installments commencing in 2012; maturing October 1, 2014.	$ 19,290,000
Series 2009B	
The Bank of New York Mellon Trust Company, N.A. Dated October 1, 2009; bearing interest ranging from 4.25% to 5.00% per annum; interest only payments due semi-annually on March 1 and October 1; principal and interest due in six semi-annual installments commencing in 2026; maturing October 1, 2028.	45,280,000
Series 2010	
The Bank of New York Mellon Trust Company, N.A. Dated October 1, 2010; bearing interest ranging from 3.375% to 5.00% per annum; interest only payments due semi-annually on March 1 and October 1; principal and interest due in six semi-annual installments commencing in 2020; maturing October 1, 2025.	64,025,000
Plus: Bond Premiums	9,227,225
Total Bonds Payable	137,822,225
Less: Current Portion	-
Bonds Payable, Long-Term Portion	$137,822,225

Note 4. Bonds Payable (Continued)

The schedule of future maturities of bonds payable as of December 31, 2010, is as follows:

Series 2009A		Series 2009B		Series 2010	
2012	$ 6,195,000	2026	$14,355,000	2020	$ 1,920,000
2013	6,450,000	2027	15,090,000	2021	11,215,000
2014	6,645,000	2028	15,835,000	2022	11,790,000
				2023	12,395,000
Total	$19,290,000	**Total**	$45,280,000	2024	13,030,000
				2025	13,675,000
				Total	$64,025,000

Interest expense totaled $3,458,170 for the year ending December 31, 2010.

In connection with the issuance of the revenue bonds listed above, the Corporation recorded bond premiums totaling $9,227,225. These premiums will be amortized over the lives of the bonds under the effective interest method. Amortization expense of bond premiums for the year ending December 31, 2010 totaled $371,339.

Note 5. Fair Value of Financial Instruments

The estimated values of the Corporation's financial instruments are as follows:

	Carrying Amount	Fair Value
Cash and Cash Equivalents	$ 3,228,770	$ 3,228,770
Restricted Cash	111,583,635	111,583,635
Investments	30,134,170	30,134,170
Accounts Payable	439,718	439,718
Contracts Payable	256,185	256,185
Interest Payable	1,647,129	1,647,129
Long-Term Debt	137,822,225	137,822,225

Note 5. Fair Value of Financial Instruments (Continued)

The valuation of the Corporation's investments by the fair value hierarchy listed in Note 1 at December 31, 2010 is as follows:

	Cost	Market
Municipal Bonds	$ 16,403,055	$ 16,311,488
Discount Notes	13,818,795	13,822,682
Total	$ 30,221,850	$ 30,134,170

Note 6. Lease Agreements

Facilities Lease

The Corporation entered into an agreement to lease the facilities to the Louisiana Community and Technical College System. The future minimum lease payments to be received as base rental payments are scheduled to be sufficient to pay the debt service requirements on the bonds as disclosed in Note 4. The term of the lease will run contemporaneously with the bonds.

The lease includes purchase options under which the Board may elect to purchase the leased facilities for an amount equal to the outstanding principal and interest due on the bonds plus any prepayment penalties and any other costs or charges which may become due as a result of the prepayment.

Ground Lease

The Corporation entered into an agreement effective October 1, 2009 to lease the land on which the facilities will be constructed from the Board. The lease term expires on October 1, 2038. The rent shall be due and paid annually in advance in the sum of $1 per year.

Note 7. Commitments

The Corporation entered into a contract with a consulting firm to create and establish the program. The contract stipulates that the Corporation will pay a start-up fee to the firm in the form of 60 monthly installments of $5,693 beginning on November 1, 2009. As of December 31, 2010, $256,185 is payable to the firm and is recorded as Contracts Payable on the statement of financial position.

As described in Note 3, the Corporation has active construction projects at various campuses for which there are commitments to contractors.

The Corporation has entered into a contract with the above mentioned consulting firm to perform administration duties over the life of the program. The fee for monthly services shall be $28,463 payable on the first day of each month. In addition, the Corporation will pay a variable fee for each of the bond transactions as they occur over the life of the program.

Note 7. Commitments (Continued)

The fee associated with phase one of the program is 36 equal payments of $3,163 beginning November 1, 2009. The fee associated with phase two of the program is 36 equal payments of $3,163 beginning September 1, 2010. The fee associated with phase three of the program is 36 equal payments of $3,163 beginning on the date the bonds are issued and funds are received.

The Corporation has entered into a contract with an engineering firm to serve as the program manager for the project. The compensation for services is a fixed fee of $6,641,861 paid in 60 equal installments, first payment due November 1, 2009.

Note 8. Concentrations of Risk

The Corporation received 100% of its Facilities Lease Rental Revenue from the Board of Supervisors of the Louisiana Community and Technical College System.

The Corporation periodically maintains cash in trust accounts in excess of insured limits. The Corporation has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

Note 9. Uncertain Tax Positions

The Corporation has adopted the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the FASB Accounting Standards Codification. The implementation of this Topic had no impact on the statement of financial position or statement of activities.

The Corporation's 2007 through 2009 tax returns were filed appropriately. As of May 24, 2011, the Corporation had not filed their 2010 tax return but has filed the necessary forms extending the time to file. The Corporation recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The Corporation's tax filings are subject to audit by various taxing authorities. The Corporation's open audit periods are 2007 through 2009. Management evaluated the Corporation's tax position and concluded that the Corporation has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Note 10. Related Parties

During 2010, the Chairman of the Corporation was also a member of the Board of Supervisors of the Louisiana Community and Technical College System (the Board).

One law firm is serving as both counsel to the Board and the Corporation. In the event of a dispute between the Board and the Corporation, this law firm may face a conflict of interest and may need to resign from representing the Board and/or the Corporation.

Note 10. Related Parties (Continued)

The Financial Advisor serving the Corporation in connection with the issuance of the bonds, and the Program Administrator serving in connection with the implementation of the project, including matters relating to the investment and expenditure of the bond proceeds, are related and affiliated companies under common control and ownership.

Note 11. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, May 24, 2011, and determined that no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

LaPorte Sehrt Romig Hand
Certified Public Accountants

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*

To the Board of Directors
LCTCS Facilities Corporation

We have audited the financial statements of the LCTCS Facilities Corporation as of and for the year ended December 31, 2010, and have issued our report thereon dated May 24, 2011. 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 LCTCS Facilities Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LCTCS Facilities Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LCTCS Facilities Corporation'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 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 the 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.

111 Veterans Memorial Boulevard, Suite 600, Metairie, LA 70005 • 504.835.5522 • Fax 504.835.5535
5100 Village Walk, Suite 300, Covington, LA 70433-4012 • 985.892.5850 • Fax 985.892.5956
Town Hall West, 10000 Perkins Rowe, Ste. 200, Baton Rouge, LA 70810-1797 • 225.296.5150 • Fax 225.296.5151
www.laporte.com

Compliance and Other Matters
As part of obtaining reasonable assurance about whether LCTCS Facilities Corporation'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 for the information and use of management, the board of directors, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

May 24, 2011

LCTCS Facilities Corporation

Schedule of Findings and Responses

Section I - Summary of Auditor's Reports

Financial Statements

1.	Type of auditors' report	Unqualified
2.	Internal control over financial reporting	
	a. Material weaknesses identified	None
	b. Significant deficiencies identified not considered to be material weaknesses	None
	c. Noncompliance material to the financial statements noted	None

Federal Awards - Not applicable

Section II - Financial Statement Findings

No matters are reported.