

**St. Mary Parish Water and
Sewer Commission No. 2
State of Louisiana**
Annual Financial Report
September 30, 2003 and 2002

Under provisions of state law, this report is a public document. Copies of this report have been submitted to the entity and other appropriate public officials. This report is available for public inspection at the State House office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 4-28-04

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2001 AND 2002

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**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2,
STATE OF LOUISIANA**
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2003

As management of the St. Mary Parish Water and Sewer Commission No. 2 ("Water and Sewer Commission"), we provide readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the St. Mary Parish Water and Sewer Commission No. 2, for the fiscal year ended September 30, 2003. Please read it in conjunction with the basic financial statements and the accompanying notes to the financial statements. This is the first year that the Commission has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement Number 34.

FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations:

- Net assets of our business-type activities increased by \$121,571 or 2.8%.
- Revenues increased to approximately \$1,231,000 or 3% from the prior year, while expenses increased to approximately \$1,110,000 or 5.6%.
- Total spending for all waterworks and sewer activities was approximately \$1,110,000 for the year, which was approximately \$121,000 less than the charges for services, the ad valorem taxes, and contributions received for these activities of approximately \$1,231,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. The Commission's basic financial statements consist of the following components:

1. Comparative Statement of Net Assets
2. Comparative Statement of Revenues, Expenses and Net Assets
3. Notes to the financial statements
4. Required supplementary information, and
5. Other supplementary information, which is in addition to the basic financial statements themselves.

The St. Mary Parish Water and Sewer Commission No. 2 utilizes a proprietary fund type – an enterprise fund for reporting. When the Water and Sewer Commission charges customers for the services it provides, whether to residential or commercial customers, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The Water and Sewer Commission's enterprise fund is the same as a business-type entity.

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2,
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For the year ended September 30, 2005**

The Comparative Statement of Net Assets and the Comparative Statement of Revenues, Expenses and Net Assets (on pages 10-11 and 12-13) provide both long-term and short-term information about the Water and Sewer Commission's overall financial status. The Comparative Statement of Net Assets presents information on all of the Commission's assets and liabilities using the accrual basis of accounting. This financial statement reports net assets and how they have changed. The difference between the assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water and Sewer Commission is improving or weakening. The Comparative Statement of Net Assets also provides the basis for computing rate of return, evaluating the capital structure and assessing liquidity and financial flexibility. You will need to consider other nonfinancial factors, however, to assess the overall health.

All of the current year's revenue and expenses are accounted for in the Comparative Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of operations over the past year and can be used to determine whether operations have successfully recovered all its costs through user fees and other charges, and other revenue sources. The final required financial statement for the enterprise fund is the Comparative Statement of Cash Flows. The primary purpose of this statement is to provide information about cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting for operations, investing and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the change in cash balance during the reporting period.

Our auditor has provided assurance in the independent auditor's report, located immediately following this MD&A, that the Basic Financial Statements are fairly stated. The auditor regarding the Required Supplemental Information and the Other Supplemental Schedules is providing varying degrees of assurance. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts in the Annual Financial Report.

FINANCIAL ANALYSIS AS A WHOLE

The comparative statement of net assets and the comparative statement of revenue, expenses, and changes in net assets report information about the Water and Sewer Commission's activities. These two statements report the net assets of the Water and Sewer Commission and changes in them. Our analysis below focuses on the net assets (Table A-1) and changes in net assets (Table A-2) of the enterprise funds business-type activities.

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2,
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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2003**

NET ASSETS

To begin our analysis, a summary of the Comparative Statement of Net Assets is presented in Table A-1.

**Table A-1
Condensed Statement of Net Assets
(In thousands of dollars)**

	FY 2003	FY 2002	Dollar Change	Total Percent Change
Current and Other Assets	\$ 2,844.1	\$ 2,478.8	\$ (365.4)	-14.7%
Capital Assets	<u>3,178.0</u>	<u>2,402.8</u>	<u>775.2</u>	<u>32.3%</u>
Total Assets	<u>6,022.1</u>	<u>4,881.6</u>	<u>1,140.5</u>	<u>23.4%</u>
Long-term Debt Outstanding	1,576.0	1,480.0	(96.0)	-6.5%
Other Liabilities	<u>308.4</u>	<u>295.4</u>	<u>13.0</u>	<u>4.4%</u>
Total Liabilities	<u>1,884.4</u>	<u>1,775.4</u>	<u>109.0</u>	<u>6.1%</u>
Invested in Capital Assets, Net of Related Debt:				
- Restricted	1,886.5	1,880.8	(66.3)	-3.5%
- Unrestricted	<u>891.5</u>	<u>1,525.8</u>	<u>(634.3)</u>	<u>-41.6%</u>
Total Net Assets	<u>\$ 4,137.7</u>	<u>\$ 3,106.2</u>	<u>\$ 1,031.5</u>	<u>33.2%</u>

As we noted earlier and as can be seen from the table above, net assets increased \$1,031.5 thousand to \$4,137.7 thousand, up from \$3,106.2 thousand in the prior year. As shown in the table you will see that the largest factor in this change in net asset position was in Capital Assets, net of related debt, increasing by \$634.3 thousand and Unrestricted Net Assets, which increased \$11.2 thousand. The increase in Capital Assets is due to the completion of several phases of capital projects, which are funded from the proceeds of general obligation bonds, therefore showing a \$634.3 thousand decrease in restricted net assets.

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2,
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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2003**

CHANGES IN NET ASSETS

A summary of the Comparative Statement of Revenues, Expenses and Changes in Net Assets is presented in Table A-2.

**Table A-2
Condensed Statement of Revenues, Expenses and Changes in Net Assets
(in thousands of dollars)**

	FY 2003	FY 2002	Dollar Change	Total Percent Change
Operating Revenues	\$ 608.1	\$ 603.3	\$ 4.8	0.8%
Nonoperating Revenues	507.3	511.6	(4.3)	-0.8%
Total Revenues	1,208.4	1,184.9	23.5	1.9%
Depreciation Expenses	173.3	175.3	(2.0)	-1.1%
Other Operating Expenses	738.9	743.8	(4.9)	-0.6%
Nonoperating Expenses	126.6	132.5	(5.9)	-4.5%
Total Expenses	1,109.8	1,081.3	28.5	2.6%
Income before Capital Contributions	98.6	143.6	(45.0)	-31.3%
Capital Contributions	23.0	-	23.0	100.0%
Change in Net Assets	121.6	143.6	(22.0)	-15.3%
Beginning Net Assets, restated	4,239.7	4,077.1	162.6	3.9%
Ending Net Assets	\$ 4,344.3	\$ 4,260.7	\$ 83.6	1.9%

While the Comparative Statement of Net Assets shows the change in financial position of net assets, the Comparative Statement of Revenues, Expenses, and Net Assets shows the changes in net assets. As can be seen in the Table A-2 above, income before capital contributions was the primary source of the \$121.6 thousand increase in net assets in 2003.

As shown in Table A-2 above, while total revenues increased only 1.9% to \$1,208.4 thousand, total expenses increased by 2.6% to \$1,109.8 thousand, or an increase of \$98,555. This was due primarily to an increase in the transfer required by an intergovernmental agreement with St. Mary Parish Council (See Note N for Agency Fund).

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2,
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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2003

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Water and Sewer Commission had \$3,176,586 invested in capital assets as summarized in Table A-3 below. This amount represents a net increase (including additions and deductions) of \$855,947, or 14.3%, over last year.

Table A-3
Summary of Capital Assets

	2001	2002	2003
Land and Right of Ways	\$ 51,708	\$ 51,708	\$ 51,708
Buildings	49,032	49,032	49,032
Water Distribution System	1,767,328	1,885,700	2,879,362
Sewerage Distribution System	3,285,884	3,289,878	3,092,448
Water Plant	838,485	838,485	838,485
Furniture and Equipment	78,600	81,838	108,000
Vehicles	24,376	24,376	24,376
Construction in Progress	-	49,034	78,684
Total Cost of Assets	5,895,003	6,884,887	8,829,884
Accumulated Depreciation	<u>(3,327,588)</u>	<u>(3,594,038)</u>	<u>(3,844,078)</u>
Total Capital Assets, Net	<u>\$ 2,467,415</u>	<u>\$ 2,490,849</u>	<u>\$ 3,175,806</u>
Depreciation Expense	<u>\$ 158,000</u>	<u>\$ 178,288</u>	<u>\$ 173,330</u>

This year there was \$952,764 of additions and \$86,817 of disposals, reflecting a net increase of \$855,947 in capital assets. This year's major capital additions included:

- + 18" waterline crossing the Lower Atchafalaya River \$ 338,811
- + 8" Waterline - Middle Road \$ 175,889
- + 6" Waterlines - Carol, Rice, Myrtle, Bergeron, Sunset, Sun, Unions, Polaris, and Venus \$ 273,131
- + 6" Sewer line - Canal Rd \$ 23,771
- + Capitalized interest on construction projects \$ 69,442

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2,
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For the year ended September 30, 2003

Proceeds from the 2002 general obligation bond issue are dedicated to financing the waterworks system improvements. At year-end the Water and Sewer Commission had approximately \$325,000 in construction projects under contract. The Commission has entered into water tank maintenance contracts for its 500,000 gallon and 200,000 gallon water tanks. These contracts for initial renovation and two years maintenance will require annual fees of approximately \$94,452 and \$24,330 for the first three years. Additional detailed information about capital assets is presented in Note D to the financial statements.

LONG-TERM DEBT

Water and Sewer Commission No.2 had \$1,370,000 in general obligation bonds outstanding at year-end. These bonds had been issued in 2002 to finance improvements to the waterworks systems. The Water and Sewer Commission did not issue any new bonds in 2003 and does not have plans on issuing any new debt at this time.

Bond Ratings

2003 general obligation bonds are not rated by any nationally recognized bond rating firm or agency.

ECONOMIC FACTORS AND CONDITIONS

The Board of Commissioners continues to monitor all economic factors that affect the cost of providing water and sewer services to its customers. The average number of customers (approximately 1870) and gallons of water sold (approximately 163 million) has remained fairly consistent over the past two years. The cost of water purchases and sewerage treatment fees, as well as cost of personnel, has remained stable. It is not anticipated that there will be any significant change in these factors and the Board has no plans to increase the rates charged to provide water and sewer service at this time. The Board has implemented a water tank maintenance program that should improve the quality of water and stabilize the cost of tower maintenance costs. Waterline replacement projects (approximately one third of all district waterlines) completed in 2003 and 2004 should improve quality and effectiveness of water distribution. The Board will continue to evaluate the ongoing need for repairs and improvements in the water distribution system and sewerage disposal system. The Board is currently working with its engineers to develop a priority list of water and sewer projects for future consideration as well as evaluating alternatives to fund these projects. If these current economic factors and conditions remain consistent, the net asset balance is expected to increase modestly by the close of 2004.

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2,
STATE OF LOUISIANA**
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2003

CONTACTING MANAGEMENT

This Annual Financial Report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of St. Mary Parish Water and Sewer Commission No. 2's finances and to demonstrate the it's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the St. Mary Parish Water and Sewer Commission No. 2 at P.O. Box 635, Patterson, LA 70092, phone number 1-985-395-2347.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
St. Mary Parish
Water and Sewer Commission No. 2
Bayou Vista, Louisiana

We have audited the accompanying financial statements of St. Mary Parish Water and Sewer Commission No. 2, a component unit of the Parish of St. Mary, State of Louisiana, as of and for the years ended September 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the St. Mary Parish Water and Sewer Commission No. 2'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.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the St. Mary Parish Water and Sewer Commission No. 2 as of September 30, 2003 and 2002, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the Water and Sewer Commission No. 2 adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments and Statement 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, as of October 1, 2002. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2004, on our consideration of St. Mary Parish Water and Sewer Commission No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the component unit financial statements taken as a whole. The schedules and statistical data listed in the table of contents as Other Supplementary Schedules are presented for purposes of additional analysis and are not a required part of the component unit financial statements of St. Mary Parish Water and Sewer Commission No. 2. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the component unit financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

W. Blanc and Carpenter

Morgan City, Louisiana
January 23, 2004

St. Mary Parish Water and Sewer Commission No. 2
 State of Louisiana
Comparative Statement of Net Assets
Water and Sewer Enterprise Fund
 September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u> (restated)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 963,291	\$ 1,806,066
Investments	482,853	393,804
Accounts receivable	111,233	114,974
Inventory	22,274	24,703
Prepaid expenses	<u>12,825</u>	<u>9,412</u>
Total current assets	<u>1,692,526</u>	<u>2,348,259</u>
RESTRICTED ASSETS (cash and investments):		
General obligation bond debt service cash	23,063	3,544
Construction fund cash	687,236	1,387,846
Customer meter deposits cash	28,608	68,596
Customer meter deposits investments	<u>120,112</u>	<u>73,908</u>
Total restricted assets	<u>841,051</u>	<u>1,533,894</u>
NONCURRENT ASSETS:		
Property, Plant and Equipment at cost (net of accumulated depreciation of \$3,644,018 for 2003 and \$3,964,021 for 2002)	1,176,586	2,480,618
Prepaid water tower maintenance	48,353	66,074
Unamortized debt issuance costs, net	24,613	23,900
Investment in Berwick-Dayco Vista Joint Waterworks Commission	<u>126,401</u>	<u>384,485</u>
Total noncurrent assets	<u>1,375,953</u>	<u>2,777,085</u>
TOTAL ASSETS	<u>\$ 3,020,718</u>	<u>\$ 3,879,158</u>

	<u>2003</u>	<u>2002</u> (restated)
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES (payable from current assets):		
Accounts payable and accrued expenses	\$ 23,839	\$ 47,946
Due to other governmental units	62,674	57,307
CURRENT LIABILITIES (payable from restricted assets):		
Contracts payable	39,406	-
Retainage payable	37,831	-
Bonds due within one year	48,808	30,000
Accrued interest on bonds	3,442	17,644
Due to other governmental units	885	227
Customer meter deposits	<u>138,792</u>	<u>135,227</u>
Total current liabilities	348,398	248,171
LONG-TERM DEBT		
Bonds due after one year	<u>1,336,800</u>	<u>1,370,000</u>
Total liabilities	<u>1,678,398</u>	<u>1,658,171</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,000,505	1,000,505
Restricted for:		
Customer meter deposits	138,792	135,227
Capital projects	687,236	1,387,846
Debt service	25,065	3,544
Unallocated	<u>1,794,679</u>	<u>1,693,551</u>
Total net assets	<u>4,342,138</u>	<u>4,320,787</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,020,738</u>	<u>\$ 5,878,158</u>

See notes to financial statements.

St. Mary Parish Water and Sewer Commission No. 2
 State of Louisiana
Comparative Statement of Revenues, Expenses and Net Assets
Water and Sewer Enterprise Fund
 Years ended September 30, 2003 and 2002

	2003	2002 <u>(restated)</u>
OPERATING REVENUES		
Charges for water service	\$ 321,159	\$ 301,509
Charges for sewer service	329,504	325,973
Delinquency charges	12,083	9,548
Meter installation, reconnections, permits, etc.	15,328	11,933
Garbage collection fees	<u>14,683</u>	<u>14,602</u>
TOTAL OPERATING REVENUES	<u>698,146</u>	<u>683,565</u>
OPERATING EXPENSES		
Direct operating costs		
Cost of water purchases	236,769	244,011
Sewerage treatment fees	148,215	148,188
Repair and maintenance - water system	26,446	83,093
Repair and maintenance - sewerage system	61,878	63,251
Personnel services		
Clerical salaries	45,823	44,139
Other salaries	45,332	44,632
Board meetings	16,275	14,928
Contract labor	416	-
Payroll taxes	-	2,346
Retirement contributions	18,684	18,308
Operating services		
Insurance	18,858	16,596
Accounting fees	8,356	17,351
Engineering fees	4,110	3,854
Legal fees	-	-
Computer consulting	2,340	915
Assetize tower maintenance	16,518	16,518
Bad debts	2,571	1,603
Utilities and telephone	20,124	15,547
Vehicle expenses	4,698	2,381
Materials and supplies		
Office expense	3,597	3,443
Postage	4,924	4,564
Advertising	883	2,755
Miscellaneous	596	1,212
Depreciation	<u>173,360</u>	<u>175,245</u>
TOTAL OPERATING EXPENSES	<u>\$ 913,242</u>	<u>\$ 908,832</u>

	<u>2001</u>	<u>2002</u> <u>(estimated)</u>
INCOME (LOSS) FROM OPERATIONS	\$ (214,099)	\$ (215,475)
NON-OPERATING REVENUE (EXPENSES)		
Increase in equity of Berwick – Bayou Vista Joint Waterworks Plant	22,081	80,128
Ad valorem taxes	456,781	381,792
SMP Sheriff's retirement contribution	(14,835)	(11,988)
Interest income	28,488	34,702
Transfer to Agency Fund	(178,080)	(120,580)
St Mary Parish Council Grant	-	15,080
Amortization of debt issuance costs	(1,296)	-
Gain (loss) on property retired	<u>(2,476)</u>	<u>-</u>
TOTAL NON-OPERATING REVENUE (NET)	<u>310,679</u>	<u>379,132</u>
INCOME OR LOSS BEFORE CONTRIBUTIONS	96,571	163,657
Contributions, intergovernmental	25,800	-
CHANGE IN NET ASSETS	122,371	163,657
NET ASSETS:		
NET ASSETS - BEGINNING OF YEAR	<u>4,220,187</u>	<u>4,057,131</u>
NET ASSETS - END OF YEAR	<u>\$ 4,342,158</u>	<u>\$ 4,220,187</u>

See notes to financial statements.

St. Mary Parish Water and Sewer Commission No. 2

State of Louisiana

Comparative Statement of Cash Flows - Water and Sewer Enterprise Fund

Years Ended September 30, 2003 and 2002

Increase (Decrease) in Cash and Cash Equivalents

	2003	2002 (Amount)
Cash flows from operating activities:		
Cash received from customers	\$ 762,865	\$ 672,143
Cash payments for direct operating costs	(549,488)	(500,488)
Cash payments for personal services	(118,610)	(156,136)
Cash payments for operating services	(84,574)	(60,610)
Cash payments for supplies	(33,640)	(15,284)
Net cash provided (used) by operating activities	<u>(233,537)</u>	<u>(259,248)</u>
Cash flows from capital and related financing activities:		
General obligation bond proceeds	-	1,480,000
Bond issue costs	-	(25,910)
Principal paid on general obligation bond	(50,000)	-
Interest paid on general obligation bond	(81,000)	-
Acquisition and construction of capital assets	(867,613)	(86,278)
Contracts payable	39,486	-
Retainage payable	17,651	-
Proceeds from property sold	1,051	-
Net cash used for capital and related financing activities	<u>(981,745)</u>	<u>1,286,212</u>
Cash flows from investing and nonoperating revenue and expense activities:		
Purchase of investment securities	(298,961)	(135,883)
Ad valorem taxes	441,943	569,784
Interest income on investments	48,547	34,718
St. Mary Parish Council grant	-	15,000
Transfer to Agency Fund	(178,000)	(128,500)
Redemption of investment securities	<u>152,907</u>	<u>18,071</u>
Net cash provided by investing and nonoperating revenue and expenses	<u>158,436</u>	<u>182,272</u>
Cash flows from noncapital financing activities:		
Cash from motor deposits	1,365	4,633
Due to other governmental units	<u>158</u>	<u>48</u>
Net cash provided (used) by noncapital financing activities	<u>1,523</u>	<u>4,681</u>
Net increase (decrease) in cash and cash equivalents	(781,911)	1,493,214

	<u>2003</u>	<u>2002</u> <u>(restated)</u>
Net increase (decrease) in cash and cash equivalents	\$ (781,921)	\$ 1,443,214
Cash and cash equivalents at beginning of period	<u>2,486,131</u>	<u>1,032,937</u>
Cash and cash equivalents at end of period	<u>\$ 1,684,210</u>	<u>\$ 2,486,151</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (214,899)	\$ (215,475)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	173,310	175,245
Amortize tower maintenance	16,518	16,508
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	3,719	(11,214)
(Increase) decrease in inventory	2,429	(6,923)
(Increase) decrease in prepaid expenses	(3,443)	(7,587)
Increase (decrease) in accounts payable	(24,136)	38,187
Increase (decrease) in due to governmental units	<u>3,367</u>	<u>(3,189)</u>
Net cash provided by (used in) operating activities	<u>\$ (48,352)</u>	<u>\$ (79,348)</u>
Cash and cash equivalents - Unrestricted:		
Cash	\$ 300,463	\$ 330,300
Cash equivalents	<u>659,828</u>	<u>671,696</u>
	<u>960,291</u>	<u>1,006,996</u>
Cash and cash equivalents - Restricted:		
Cash	47,688	1,431,008
Cash equivalents	<u>673,239</u>	<u>38,947</u>
	<u>720,927</u>	<u>1,469,955</u>
Total cash and cash equivalents	<u>\$ 1,684,210</u>	<u>\$ 2,486,151</u>

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2003

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ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA

Notes to Financial Statements

September 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Creation

As provided for by Act No. 259 of the 1998 regular Session of the Louisiana Legislature (Chapter 24-A of the title 33 of the Louisiana Revised Statutes of 1958) parish governing authorities may upon their own initiative, create water and sewer commissions for the objective and purpose of providing economy and efficiency in the furnishing of water, sewer and sewerage disposal or treatment within any area of a Parish, outside the corporate limits of municipalities. On October 27, 2000, the St. Mary Parish Council adopted Ordinance No. 1474 which created "St. Mary Parish Water and Sewer Commission No. 2, State of Louisiana" (the Commission) which is a political subdivision of the Parish of St. Mary and the state of Louisiana, with authority to plan, finance, construct, acquire, improve, operate and maintain water, sewer and sewerage disposal improvements within its designated boundaries. The Commission was created in order to effect economy and efficiency in the furnishings of water, sewer and sewerage treatment and disposal within it's boundaries, which includes the same boundaries as Waterworks District No. 2 of St. Mary Parish Water and Sewerage District No. 2 of St. Mary Parish (the Districts). The Commission shall have jurisdiction over all works and facilities for water, sewer and sewerage disposal and treatment facilities now owned and operated by the Districts within the boundaries and jurisdiction of the Commission. The water, sewer and sewerage disposal facilities owned and/or operated by Waterworks District No. 2 and Sewerage District No. 2 as such facilities now exist or as they may be extended and/or improved shall be authorized to be operated, maintained, improved, extended and/or disposed of by the Commission. The governing authority of the Commission shall be a Board of Commissioners consisting of seven members, all appointed and serving at the pleasure of the St. Mary Parish Council. The Ordinance became effective and in full force on January 1, 2001. At the same time the Commission assumed the responsibilities of providing water distribution and sewerage disposal. All assets, obligations and residual equity of the Districts were transferred to the control of the Commission on March 1, 2001.

The accounting and reporting practices of the St. Mary Parish Water and Sewer Commission No. 2 conform to generally accepted accounting principles as applicable to governmental units on a consistent basis between periods. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guides set forth in the Louisiana Municipal Audit and Accounting Guide, and to the industry audit guide, Audits of State and Local Governmental Units.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity

GAISS Statement No. 14, *Governmental Reporting Entity*, establishes criteria for determining which organizations should be included in a governmental financial reporting entity. The focal point for defining the financial reporting entity is the primary government. The St. Mary Parish Water and Sewer Commission No. 2 is a component unit of the St. Mary Parish Council (primary government) and, as such, these financial reports may be included in the CAFR of the Council for the year ended December 31, 2003. The St. Mary Parish Water and Sewer Commission No. 2 has followed GAISS-14 guidance to determine that there are no financial statements of other organizations that should be combined with their statements to form a financial reporting entity.

Method of Accounting

On October 1, 2002, the Water and Sewer Commission No. 2 adopted the provisions of Statement No. 34 of the Government Accounting Standards Board - "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." Statement 34 established standards for external financial reporting for all state and local government entities that include a statement of net assets, a statement of revenues, expenses, and net assets and a statement of cash flows.

For Water and Sewer Commission No. 2, the adoption of Statement No. 34 had no effect on the basic financial statements except for the classification of net assets in accordance with the Statement and the reflection of capital contributions as a change in net assets.

The financial statements of the Water and Sewer Commission No. 2 are prepared on the accrual basis of accounting. Whereby revenues are recognized when earned and expenses are recognized when incurred. Under Governmental Accounting Standards Board Statement No. 20, the Water and Sewer Commission No. 2 has elected not to apply Financial Accounting Standards Board provisions issued after November 30, 1989.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The operating revenues of the Water and Sewer Commission No. 2 come from metered sales to residential, industrial and municipal customers as well as service connection charges and penalties from late payment of bills. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

An Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. The Commission's Water and Sewer System is an enterprise fund.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Agency Fund – An Agency Fund is used to account for fiduciary relationships involving only custodial or modest management responsibilities. An Agency Fund may be used as a clearing account when one governmental entity collects or receives financial resources that are to be distributed to other governmental entities. Agency funds are custodial in nature and do not involve measurement of results of operations. The Commission's agency fund is being used to account for transactions related to an intergovernmental agreement entered into with the St. Mary Parish Council on July 26, 1995. See Note N for additional details.

Governments engaged only in single or multiple business type activities should present only the financial statements required for enterprise funds and required supplementary information. As a general rule, financial statements of special-purpose governments engaged only in business type activities do not include their fiduciary (agency) funds. Accordingly the Commission's financial statements do not include the net assets or changes in the net assets of its' agency fund. The Commission uses the modified accrual basis of accounting for Fiduciary fund types (agency fund).

Definition of Cash and Cash Equivalents

The Commission considers all cash (currency and checks on hand and demand deposits with banks and other financial institutions) or highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. The Commission included open-ended mutual funds as cash and cash equivalents. In accordance with GASBS No. 9, The Commission presents a cash flows statement that shows the change during the period in unrestricted and restricted cash and cash equivalents.

Budgets and Budgetary Accounting

The St. Mary Parish Water and Sewer Commission No. 2 follows these procedures in establishing administrative budgetary accounting:

- a. An administrative budget is employed as a management planning and control device during the year for the Proprietary Fund. The forecasted budget is prepared on a basis consistent with generally accepted accounting principles (GAAP), which for the Proprietary Fund is the accrual basis of accounting.
- b. The Proprietary Fund Statement of Income, Expenses, and Changes in Retained Earnings does not reflect budget and actual comparisons of the administrative budget because it is not a legally adopted budget.

Restricted Assets

In accordance with state law, amounts received as utility deposits are held in separate accounts. These funds are classified as restricted assets on the balance sheet because their use is limited by state law. Proceeds from a general obligation bond issue in 2002 are included in a restricted account to be used for the purpose of the bond issue, i.e. construction, maintenance and improvement of the water and sewer systems. In accordance with the bond issue requirements, certain funds are accumulated in a sinking fund account that is restricted for the purpose of payment of the bond principal and interest.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures

The Commission (via Waterworks District No. 2) and the Town of Berwick jointly constructed a water treatment plant to provide a water supply to each entity. Each participant has a 50% interest in the venture. The cost of constructing the plant was borne by the two communities, and they have appointed a board to operate and maintain the plant. The Berwick-Bayon Vista Joint Waterworks Commission was created to maintain, operate and administer the joint water treatment plant. The Commission has included its share of the joint venture cost and current operations in these financial statements using the equity method of accounting. See Note H for additional disclosures.

Investments

In accordance with GASB Statement No. 31, the Commission's general policy is to report money market investments at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

Inventory and Prepaid Items

Materials and supplies inventory is valued at cost. Cost is determined primarily by the first-in, first-out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Property, Plant and Equipment

Public domain (infrastructure) general fixed assets including water plant, water and sewer lines, water towers, pump stations and all other water distribution and sewerage disposal infrastructure are capitalized in the proprietary fund. Property, plant and equipment owned by the proprietary fund is recorded at cost or, if contributed property, at their fair market value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest has been capitalized during the construction period on property, plant and equipment in the proprietary fund.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Water plant	10-40 years
Water distribution system	18-33 years
Sewerage distribution system	10-45 years
Administrative buildings	10-40 years
Furniture and equipment	3-40 years
Automobiles and trucks	6 years

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bad Debts

The financial statements contain no allowance for uncollectible accounts receivables which is a generally accepted accounting principle. Uncollectible receivables are charged off at the time information becomes available which would indicate the uncollectibility of the particular receivable. The failure to utilize the allowance method to account for bad debts is not material to the financial statements.

Accumulated Vacation, Compensatory Time and Sick Leave

Accumulated vacation, compensatory time and sick leave are recorded as an expenditure of the period in which paid. At September 30, 2003 unrecorded liabilities for the above are of an immaterial amount.

Restricted Net Assets

On October 1, 2002 the Water and Sewer Commission No. 2 adopted the provisions of GASBS Statement No. 34. Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, statement of activities and changes in net assets and a statement of cash flows. It requires classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** - This component of net assets consists of capital asset, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same assets component as proceeds.
- **Restricted** - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** - The component of net asset consist of net assets that do not meet definition of "restricted" or "invested in capital assets, net of related debt."

Estimates

The Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – DEPOSITS AND INVESTMENTS

Cash includes currency and checks on hand and amounts in demand deposit checking and money market checking accounts.

Cash equivalents includes amounts in open-ended mutual funds with daily access for withdrawals and LAMP, which is an external local government investment pool with no withdrawal penalty and immediate access to account balances. These cash equivalents are investments for GASBS No. 3 disclosure requirements.

The Commission may invest in time deposits or certificate of deposits of state banks or savings and loan associations or savings banks organized under Louisiana law and national banks having principle offices in Louisiana. 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 bank. The pledged securities are to be held in the name of the pledging bank at a holding or custodial bank that is mutually acceptable to both parties. Obligations of the United States, the State of Louisiana and certain political subdivisions are allowed as security for deposits.

Deposits and investments (including restricted assets) stated at cost (fair value) consist of the following:

	9-30-03		9-30-02	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Cash	\$ 400	\$ --	\$ 400	\$ --
Checking and money market accounts	150,743	378,049	1,761,138	1,794,124
Certificates of deposit	479,375	479,313	334,206	334,206
LAMP	1,231,753	1,231,735	592,049	592,049
US Treasury note	38,906	38,906	39,817	39,817
Federal Home Loan Mortgage Corp. note	94,685	94,685	93,986	93,986
Open-end mutual fund money market	<u>101,331</u>	<u>101,331</u>	<u>111,468</u>	<u>111,467</u>
Total cash and investments	<u>\$2,297,193</u>	<u>\$2,324,100</u>	<u>\$2,933,060</u>	<u>\$2,965,649</u>

The Commission's bank deposits are categorized to give an indication of the level of risk assumed by the Commission at September 30, 2003:

- Category 1 - Insured or collateralized with securities held by the Commission or by its agent in the Commission's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name.
- Category 3 - Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the Commission's name.

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

Deposits categorized for credit risk at September 30, 2003:

	Risk Category		
	1	2	3
Insured deposits:			
Checking and money market accounts	\$100,000	\$ --	\$ --
Certificates of deposit	359,629	--	--
Uninsured deposits:			
Collateralized	--	--	--
Uncollateralized:			
Checking and money market accounts	--	--	278,049
Certificates of deposit	--	--	118,736
Total deposits	\$459,629	\$ --	\$397,795

GASB Statement 3 categorizes the \$241,829 as uncollateralized risk (Category 3) because the securities are not in the Commission's name even though the securities were being held by a custodial bank on behalf of the bank. Although \$241,829 of bank balances are considered uncollateralized (Category 3), Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank (entity holding the pledged securities) to advertise and sell the pledged securities within 10 days of being notified by the Commission that the Commission's bank has failed to pay deposited funds on demand.

The Commission's primary purpose for investing is to earn interest income on money that has been determined to be in excess of immediate cash needs. State statutes authorize the Commission to invest temporarily idle monies in the following:

1. United States Treasury Bonds
2. United States Treasury Notes
3. United States Treasury Bills
4. Obligations of U.S. Government Agencies, including such instruments as Federal Home Loan Bank bonds, Government National Mortgage Association bonds, or a variety of "Federal Farm Credit" bonds.
5. Fully collateralized certificates of deposit issued by qualified commercial banks and savings and loan associations located within the State of Louisiana.
6. Fully collateralized repurchase agreements.
7. Fully collateralized interest-bearing checking accounts.
8. Mutual or Trust Fund institutions which are registered with the Securities and Exchange Commission under the Security Act of 1933 and the Investment Act of 1940, and which have underlying investments consisting solely of and limited to securities of the United States Government or its agencies.
9. Any other investment allowed by state statute for local governments.
10. Louisiana Asset Management Pool (LAMP)

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

The Commission's investments are categorized into three risk categories of credit risk:

Category 1- Insured or registered, or securities held by the entity or its agent in the Commission's name.

Category 2- Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commission's name.

Category 3- Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name.

Investments categorized for credit risk at September 30, 2003:

	Carrying Value	Market Value	Risk Category		
			1	2	3
LAMP	\$1,231,755	\$1,231,755	\$ --	\$ --	\$ --
Mutual fund money market	101,551	101,551	--	--	--
U.S. Agencies	94,685	91,605	91,605	--	--
U.S. Treasury Notes	38,906	39,317	39,317	--	--
	<u>\$1,466,897</u>	<u>\$1,464,228</u>	<u>\$139,932</u>	<u>\$ --</u>	<u>\$ --</u>

The Commission had \$1,231,755 invested in the Louisiana Asset Management Pool (LAMP), a local government investment pool. In accordance with GASB Codification Section 150.165, the investment in LAMP as of September 30, 2002 is not categorized in the three risk categories provided by GASB Codification 150.164 because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form.

LAMP is administered by LAMP, Inc., which is a nonprofit corporation organized under the laws of the State of Louisiana which was formed by an initiative of the State Treasurer in 1993. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. LAMP investments are restricted to securities insured, guaranteed, or backed by the U.S. Treasury, the U. S. government or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by these securities. The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consist of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances. Due to this immediate access feature, investments in LAMP are considered cash equivalents by the Commission.

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

The \$101,331 held in the Edward Jones "Money Market Fund" accounts is protected up to \$500,000 by the Securities Investor Protection Corporation, a non-profit corporation created by Congress that receives revenues from the broker-dealers who are required by law to be SIPC members. The Fund invests primarily in a portfolio of U.S. Treasury and government agency securities, including repurchase agreements collateralized fully by U.S. Treasury and government agency securities. Portfolio securities and repurchase agreements will have a maturity of 397 days or less. The dollar-weighted average maturity of the Fund's portfolio is 90 days or less. SIPC provides protection in the event that Edward D. Jones fails financially and is unable to meet its obligations to its customers.

SIPC protection does not cover any decreases in the net asset value of the shares of the money market mutual fund produced by market fluctuations. Accordingly, the Commission is at risk for any amounts held in the money market mutual fund. As of September 30, 2003, the "Money Market Fund's" portfolio included about 31.2% of securities which were direct U.S. Treasury obligations and obligations of other U.S. government agencies and 48.2% of repurchase agreements fully collateralized by U.S. Government and/or agency obligations.

The Commission's open-ended mutual fund investments have not been assigned a category of credit risk similar to the other investments because this type of investment is not evidenced by securities that exist in physical or book entry form.

NOTE C - DUE TO/FROM OTHER GOVERNMENTAL UNITS

	<u>9-30-03</u>	<u>9-30-02</u>
	Due To	Due To
	Other	Other
	<u>Governmental</u>	<u>Governmental</u>
Due to Berwick-Bayou Vista Joint Waterworks (water purchases)	\$24,229	\$19,014
Due to Joint Sewer Commission Wards 5 & 8 (Sewerage treatment fees)	13,217	14,521
Due to St. Mary Parish Council (Inter-governmental services – garbage/mosquito fees)	<u>35,228</u>	<u>23,772</u>
	<u>\$72,674</u>	<u>\$57,307</u>

NOTE D - CHANGES IN PROPERTY, PLANT AND EQUIPMENT

Changes in the Enterprise Fund property, plant and equipment for the year and accumulated depreciation are presented below :

Property	Net Additions		Net Additions		Balance 9-30-02
	Balance 9-30-01	Reclassifications (Dispositions)	Balance 9-30-01	Reclassifications (Dispositions)	
Land, right of ways	\$ 51,709	\$ --	\$ 51,709	\$ --	\$ 51,709
Buildings	43,052	3,481	48,533	--	48,533
Distribution systems - sewerage	3,055,664	14,014	3,069,678	23,771	3,093,449
Distribution systems - water	1,767,539	38,164	1,805,703	773,649	2,579,352
Water Plant	838,483	--	838,483	--	838,483
Furniture and Equipment	79,805	1,734	81,539	24,497	106,036
Vehicles	24,376	--	24,376	--	24,376
Construction in progress	--	44,634	44,634	24,030	78,664
Total Cost	\$5,860,639	\$104,027	\$5,964,657	\$835,947	\$6,820,604
Less accumulated depreciation at year end	<u>3,350,588</u>		<u>3,364,809</u>		<u>3,644,018</u>
Net property, plant and equipment	\$2,498,642		\$2,498,648		\$3,176,586

Depreciation expense for the years ended September 30, 2003 and 2002, respectively was \$173,319 and \$175,245.

NOTE E - CAPITALIZED INTEREST

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. The following fund is affected:

	Total Interest Cost Incurred	Interest Revenue Used to Offset Interest Costs	Capitalized Interest
Proprietary fund - 2003	<u>\$72,788</u>	<u>\$12,049</u>	<u>\$60,739</u>
Proprietary fund - 2002	<u>\$17,644</u>	<u>\$ 5,291</u>	<u>\$12,353</u>

NOTE F - CHANGE IN ACCOUNTING ESTIMATE

During the year ending September 30, 1999, based on actual experience of repairs and replacements of sewer lines and concurring with the District's engineer, a change in the estimated useful life of sewer lines constructed in 1962 and 1990 was made. The estimated useful life was reduced from 75 years to 45 years. This change reduced income before extraordinary items and net income by \$18,502 for the year ending September 30, 2000 and 2002. This change will also reduce income before extraordinary items and net income by \$18,502 for each of the next four years and by \$15,486 for each of the following twenty-six years.

NOTE G - RETIREMENT PLAN

All Commission employees are covered under the Federal Insurance Contribution Act (Social Security). In addition, qualified employees also belong to a SEP/IRA Retirement Plan. The Commission contributes 5% of the gross wages of each qualified employee to their individual SEP/IRA Retirement Plan account on a monthly basis. The Commission's contributions to the above plans totaled approximately \$10,684 and \$10,308 for the periods ended September 30, 2003 and 2002. This amount is paid to the Retirement Systems which are responsible for administering the plan and disbursing benefits. There were no unfunded contributions under either plan at September 30, 2003.

NOTE H - INVESTMENT - BERWICK-BAYOU VISTA JOINT WATERWORKS COMMISSION

All of the water sold by St. Mary Parish Water and Sewer Commission No. 3 is obtained from Berwick-Bayou Vista Joint Waterworks Commission. The Berwick-Bayou Vista Joint Waterworks Commission was created and established with the sole responsibility and duty to maintain, operate, and administer the joint water treatment plant for St. Mary Parish Water and Sewer Commission No. 2 and Town of Berwick. The water treatment plant was constructed and is owned by the Commission and the Town of Berwick, Louisiana. The St. Mary Parish Water and Sewer Commission No. 2 and the Town of Berwick appoint the members of the Board of Commissioners for the Joint Waterworks Commission. The Commission's portion of the cost of the plant is carried in property, plant and equipment. Amounts reported as an investment in other assets represents the Commission's equity in the joint venture. The Berwick-Bayou Vista Joint Waterworks Commission reports as a component unit of the St. Mary Parish Council. Separate financial statements are available from the St. Mary Parish Council. The following is a summary of selected financial information of the Berwick-Bayou Vista Joint Waterworks Commission:

	Year Ended <u>9-30-02</u>	Year Ended <u>9-30-03</u>
Total assets	5689,000	5943,607
Total liabilities	51,698	50,361
Total net assets	637,307	593,246
Total revenues	510,155	578,226
Total expenditures	466,194	417,970
Change in net assets	44,000	160,256

NOTE H - INVESTMENT - BERWICK-BAYOU VISTA JOINT WATERWORKS COMMISSION
(Continued)

St. Mary Parish Water and Sewer Commission No. 2 purchased the following quantities and amounts of water from the Joint Waterworks Commission:

	Year Ended 9-30-03	Year Ended 9-30-02
Gallons of water purchased	238,397,000	204,421,000
Cost of water purchase	\$236,789	\$244,811

NOTE I - PREPAID WATER TOWER MAINTENANCE

The Commission has recorded the total cost of having its 250,000 gallon water storage tank coated, painted, and repainted as prepaid water tower maintenance. The project was completed September 10, 1996 at a total cost of \$163,184. This cost will be amortized over its estimated useful life of ten years beginning in October, 1996.

	9-30-03	9-30-02
Total prepaid water tower maintenance	\$163,184	\$163,184
Amortization to date	<u>(113,629)</u>	<u>(99,116)</u>
Net prepaid water tower maintenance	<u>\$ 49,555</u>	<u>\$ 64,074</u>

NOTE J - ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

Property tax revenues include amounts withheld by the Sheriff to make "on-behalf" payments for fringe benefits" which represent the Commission's pro-rata share of retirement plan contributions for other governmental units. Because the Commission is one of several governmental agencies receiving proceeds from a property tax assessment, it has to bear a pro-rata share of the pension expense relating to the public employees who participate in the Parochial Employees Retirement System. The Commission's pro-rata share of the required contribution was \$14,838 and \$11,968 for the years ended September 30, 2003 and September 30, 2002 respectively, which was withheld by the Sheriff from property tax collections to satisfy the Commission's obligation, has been presented as an "intergovernmental" expenditure of the Proprietary Fund in these financial statements. The Commission has also increased its property tax revenues by the same amount of the intergovernmental expenditure.

NOTE K - LONG - TERM DEBT

Long-term liabilities associated with the proprietary funds are accounted for in these funds. Bond premiums and discounts and issuance costs are deferred and amortized over the life of the bonds on a straight-line basis, which does not differ materially from the use of the effective interest method.

NOTE K – LONG – TERM DEBT (Continued)

A summary of general long-term debt is as follows:

<u>Description</u>	<u>Balance at</u> <u>9-30-02</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at</u> <u>9-30-03</u>
\$1,400,000 of General Obligation Bonds, Series 2002, of St. Mary Parish Water and Sewer Commission No. 2 of the Parish of St. Mary, State of Louisiana	<u>\$1,400,000</u>	<u>\$--</u>	<u>\$30,000</u>	<u>\$1,370,000</u>
	<u>\$1,400,000</u>	<u>\$--</u>	<u>\$30,000</u>	<u>\$1,370,000</u>

There are a number of limitations and restrictions contained in the general obligation bond indentures. The Commission is in compliance with all significant limitations and restrictions at September 30, 2003.

The annual requirements to amortize bonds outstanding, including interest payments as of September 30, 2003 and 2002, are as follows:

	<u>9-30-03</u>		<u>9-30-02</u>
2004	\$ 111,000	2003	\$ 115,000
2005	113,873	2004	111,000
2006	111,623	2005	113,873
2007	114,250	2006	111,623
2008	116,384	2007	114,250
2009-2013	570,739	2008-2012	572,223
2014-2018	576,237	2013-2017	576,734
2019-2022	<u>461,733</u>	2018-2022	<u>576,378</u>
	<u>\$2,176,105</u>		<u>\$2,291,105</u>

NOTE L - PENDING LITIGATION

Based on information available, potential claims against the Commission not covered by insurance would not materially affect the financial statements of the Commission.

NOTE M - AD VALOREM TAXES AND MAINTENANCE MILLAGE ASSESSMENT

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Property taxes are levied each November 1 on the assessed value listed as of the prior January 1 for all real property, merchandise and movable property located on the Commission's boundaries. Assessed values are established by the St. Mary Parish Assessor's Office and the State Tax Commission at percentages of actual value as specified by Louisiana Law. Taxes are due and payable December 31 and are delinquent after that date with interest being charged. Lien date for all delinquent properties is April 1. The St. Mary Parish Sheriff bills and collects property taxes for the Commission using the assessed values determined by the tax assessor of St. Mary Parish. Commission property tax revenues are budgeted in the year billed.

NOTE M - AD VALOREM TAXES AND MAINTENANCE MILLAGE ASSESSMENT
(Continued)

For the period ended September 30, 2003 and 2002, 18.34 mills were authorized and levied for the purpose of operating and maintaining the water and sewer system for the constituents of Water and Sewer Commission No. 1.

NOTE N - AGENCY FUND - INTERGOVERNMENTAL AGREEMENT

St. Mary Parish Water and Sewer Commission No. 2 has assumed the following intergovernmental agreement as part of completing the consolidation of Sewerage District No. 2. The Commission will continue to account for the intergovernmental transfers in the Agency Fund.

The St. Mary Parish Council had requested that Sewerage District No. 2 develop a funding mechanism to assist in the payment of the balance owed on the \$3,850,000 of public improvement bonds which were sold in 1983 for the purpose of financing the unincorporated areas portion of the construction and acquisition of sewerage facilities in Wards 5 and 8. These bonds had been refinanced from time to time and are the legal obligation of the Council. This request was made due to short falls in the original plan to fund the bond issue.

On July 26, 1993, Sewerage District No. 2 entered into an intergovernmental agreement in conjunction with Sewerage District No. 8 and the St. Mary Parish Council, whereby the sewerage districts will be obligated to pay any shortfall between the 3/4 % sales tax received and the remaining balance of the bond issue, \$4,519,816.75 which includes principle and interest. The balance due will be allocated \$3,411,837.68 to Sewerage District No. 2 and \$1,107,979.07 to Sewerage District No. 8. The sewerage districts will each receive for the calendar years through December 1, 2004 their respective percentage of the 3/4 % sales tax applicable to the sewer area that presently is collected by the Parish Council and used to fund the debt service on the sewerage bonds. The sewerage districts covenant that they shall adjust millages and/or user fees as they deem necessary and appropriate for the retirement of the said bonds in accordance with the bond payment schedule. The Commission is accounting for the 3/4% sales tax received, transfers from the enterprise fund, and transfers made to the St. Mary Parish Council in an agency fund. The net assets in the Agency Fund is restricted for the payment of obligations to St. Mary Parish Council arising from this intergovernmental agreement.

Statement of Net Assets for the Agency Fund:

	9/30/03	9/30/02
Assets		
Cash and cash equivalents	\$190,209	\$160,653
Due from other governmental units	<u>19,931</u>	<u>17,876</u>
Total Assets	<u>\$210,140</u>	<u>\$178,529</u>
Liabilities		
Due to St. Mary Parish Council	<u>\$210,140</u>	<u>\$178,541</u>
Total Liabilities	<u>\$210,140</u>	<u>\$178,541</u>
Net Assets		
None	<u>---</u>	<u>---</u>
Total Liabilities and Net Assets	<u>\$210,140</u>	<u>\$178,541</u>

NOTE N – AGENCY FUND - INTERGOVERNMENTAL AGREEMENT (Continued)

Changes in Net Assets for the Agency Fund:

	9-30-02	9-30-03
Additions		
Intergovernmental transfers		
St. Mary Parish Council	\$223,968	\$228,639
Enterprise Fund – Water & Sewer System	178,000	120,300
Interest Income	<u>1,071</u>	<u>1,827</u>
Total additions	<u>403,039</u>	<u>350,766</u>
Deductions		
Intergovernmental transfers		
St. Mary Parish Council	371,512	371,687
Total deductions	<u>371,512</u>	<u>371,687</u>
Change in Net Assets	31,499	(10,343)
Net assets held in custody for intergovernmental agreement		
Beginning of year	<u>178,641</u>	<u>188,182</u>
End of year	<u>\$210,140</u>	<u>\$177,839</u>

The Commission has made the following operating transfers to the agency fund to provide funds for payment to the St. Mary Parish Council in accordance with the intergovernmental agreement:

Year ending September 30, 1996	\$ 90,000
Year ending September 30, 1997	91,000
Year ending September 30, 1998	151,500
Year ending September 30, 1999	102,007
Year ending September 30, 2000	159,562
Period ending February 28, 2001	200,000
Year ending September 30, 2002	120,500
Year ending September 30, 2003	<u>178,000</u>
TOTAL	<u>\$1,892,169</u>

NOTE D – CONTINGENCIES AND UNCERTAINTIES

As of September 30, 2003, the St. Mary Parish Council has made all required bond obligation payments on the general obligation bonds aforementioned in Note E.

NOTE P – CONSTRUCTION COMMITMENTS

Construction contract commitments at September 30, 2003 are as follows:

	Total Estimated Cost	Costs Incurred to 9/30/03
6" Waterline replacement (approximately)	\$ 725,000	\$378,515
Renovation and maintenance of 500,000 gallon water tank	<u>283,354</u>	<u> </u> \$
	<u>\$1,008,354</u>	<u>\$378,515</u>

NOTE Q – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Commission carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements of claims have not exceeded coverage in the past three years. See the insurance schedule included in the supplemental information section for risks covered by commercial insurance.

REQUIRED SUPPLEMENTARY INFORMATION (PART II)

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA

Schedule of Per Diem and Compensation of Board of Commissioners

September 30, 2003

	Meetings Attended	
ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2		
Don Ryan, Chairman	13	\$2,665
Harbert Adams, Commissioner	13	2,815
Sony Legendre, Commissioner	13	2,815
Iris Richard, Commissioner	13	2,815
Sara Robison, Commissioner	13	2,815
Tony Heragan, Commissioner	13	2,815
Albert Hebert, Commissioner	13	2,815
Monica Lortage, Secretary	1	<u>60</u>
		\$14,815
BERWICK-BAYOU VISTA JOINT WATERWORKS COMMISSION		
Iris Richard, Commissioner	13	780
Clarence Hebert, Commissioner	13	<u>780</u>
TOTAL		\$16,575

OTHER SUPPLEMENTAL SCHEDULES

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA

Insurance

September 30, 2003

(Unaudited)

Insurer	Amount of Policy	Risks Covered	Expiration Date
Lafayette Insurance Company	\$69,280	Office Building and contents	4-28-04
	\$25,880	Warehouse and contents	
Bridgford Casualty Insurance Company	\$1,000,000	Worker's Compensation	4-28-04
St. Paul Insurance Company	\$2,000,000	Comprehensive General Liability	4-28-04
St. Paul Insurance Company	\$1,000,000	Auto Liability	4-28-04
Stedfast Insurance Company	\$1,000,000	Public Management Liability	4-28-04
Continental Casualty Co.	\$10,000	Honesty blanket bond coverage on employee and commissioner	11-21-03
Bellevue Insurance Company	\$980,000	Water purification plant Building Contents Tank Building	2-1-04
	\$495,000		
	\$31,000		

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA

Schedule of Gallons of Water Purchased and Sold
and Number of Water Customers

For the year ended September 30, 2003 and 2002

(Unaudited)

	<u>9-30-03</u>	<u>9-30-02</u>
Gallons purchased for the period	228,377,000	204,421,000
Gallons sold for the period	186,485,000	180,410,740
Number of users at year end	1,872	1,871
Gallons not sold for the period	81,991,940	44,010,260
Cost per 1000 gallons purchased	.8187	.7853
Cost of gallons not sold	\$34,348	\$34,813

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA

Water and Sewer Rates

September 30, 2003

The board of Commissioners approved a water and sewer rate increase on September 11, 1995, effective October 1, 1995. The new rate is as follows:

Water	Sewer
First 3,000 Gallons - \$8.00	7.00 Flat Fee
Over 3,000 Gallons - \$1.95 per 1,000	1.15 per 1,000 Gallons of water used

For the period October 1992 to September 30, 1995, the water and sewer rates were as follows:

Water	Sewer
First 3,000 Gallons - \$4.75	6.00 Flat Fee
Over 3,000 Gallons - \$1.37 per 100	1.00 per 1,000 Gallons of water used

For the period August 1988 to September 30, 1992, the water rates were as follows:

First 5,000 Gallons - \$4.00
Over 5,000 Gallons - \$1.14 per 100

Prior to August, 1988 the water rates were as follows:

First 5,000 Gallons - \$3.35
Next 3,000 Gallons - \$1.05 per 1,000
Next 3,000 Gallons - \$1.00 per 1,000
Next 3,000 Gallons - \$1.05 per 1,000
Next 3,000 Gallons - \$1.00 per 1,000
Next 3,000 Gallons - \$1.05 per 1,000
Next 3,000 Gallons - \$1.00 per 1,000
Next 3,000 Gallons - \$1.05 per 1,000
Next 3,000 Gallons - \$1.00 per 1,000

**REPORTS REQUIRED BY GOVERNMENT
AUDITING STANDARDS**

LEBLANC AND CARPENTER
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS
400 CHANDLER, P.O. BOX 10000
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ROCKY JOHNSON, LEBLANC, CPA
MEMBER OF CHARTERED CPAs

MEMBER
MEMBER INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Commissioners
St. Mary Parish Water and Sewer Commission No. 2
Morgan City, Louisiana

We have audited the financial statements of St. Mary Parish Water and Sewer Commission No. 2, as of and for the years ended September 30, 2003 and 2002, and have issued our report thereon dated January 23, 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 the Commission's general purpose 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 these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. There were no prior year findings.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission'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 Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item IC 2003-1.

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 accounts 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 consider the reportable condition identified as DC 2003-1 in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

This report is intended solely for the information and use of the Board of Commissioners (management), the St. Mary Parish Council, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

LeBlanc and Carpenter

January 23, 2004
Morgan City, Louisiana

St. Mary Parish Water and Sewer Commission No. 2
 State of Louisiana
Schedule of Findings and Questioned Costs
 For The Year Ending September 30, 2003

We have audited the financial statements of St. Mary Parish Water and Sewer Commission No. 2 as of and for the year ended September 30, 2003, and have issued our report thereon dated January 23, 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 September 30, 2003 resulted in an unqualified opinion.

Section I - Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control:

Material Weakness

YES

NO

Reportable Conditions

YES

NO

Compliance:

Compliance Material to Financial Statements

YES

NO

b. Federal Awards

The auditor has determined that there were no federal awards received by the Commission therefore this section is not applicable.

Internal Control:

Material Weakness

YES

NO

Reportable Conditions

YES

NO

Type of Opinion on Compliance

Unqualified

Qualified

For Major Programs:

Disclaimers

Adverse

Are their findings required to be reported in accordance with Circular A-133, Section 510(c)?

YES

NO

c. Identification of Major Programs:

CFDA Number (s)

Name of Federal Program (or Cluster)

The auditor has determined that there were no federal awards received by the Commission, therefore this section is not applicable.

Section II - Financial Statement Findings

DC 1000-1) Material Weakness - Segregation of Duties

Our examination disclosed that there is very little segregation of duties amongst the Commission's accounting functions, particularly in the areas of cash disbursements, cash receipts, bank reconciliations, general ledger and journal entries. This weakness is due to the fact that the Commission employs only one person assigned to the various accounting functions. Due to the lack of segregation of duties, possible errors or irregularities could occur in the accounting records and not be detected timely.

We recommend the following procedures as suggestions to compensate for the lack of segregation of duties within the Commission's accounting function:

- 1) Have the monthly bank statement mailed direct to a Board member each month. This member could do a review of checks clearing the bank statement. This review would include comparing the information on each cancelled check to the check register maintained by the bookkeeper, verifying payments were made to authorized vendors, and verifying approved signatures.
- 2) Consider assigning bank reconciliation procedures to personnel not responsible for check writing and general ledger posting.
- 3) Board approval for all invoices before the invoice is paid.
- 4) Require signatures of two approved Board members on each check to be written.
- 5) Consider assigning the responsibility of posting customer payments and deposits to personnel not responsible for collection of payments.
- 6) On a monthly basis the Board should review all adjustments to accounts receivable and customer billings to ascertain the transactions were consistent with Board approval and policy.
- 7) On a monthly basis the Board should review the general ledger and journal entries to ascertain if the recorded transactions were consistent with those previously approved by the Board.
- 8) The Board should review bank statements and journals to verify that tax collections are deposited timely and to agree the Sheriff's remittance stub information.

This list is not intended to be all inclusive of procedures that could be instituted to strengthen internal controls but to provide suggestions that the Board may consider to better monitor its accounting function due to a limited number of accounting personnel.

Section III - Federal Award Findings and Questioned Costs

The auditor has determined that there were no federal awards received by the Commission, therefore this section is not applicable.

St. Mary Parish Water and Sewer Commission No. 2

State of Louisiana

Status of Prior Audit Findings

Year Ended September 30, 2003

<u>Reference Number</u>	<u>Fiscal Year Finding Initially Occurred</u>	<u>Description of Finding</u>	<u>Corrective Action Taken (Yes, No, Partially)</u>	<u>Planned Corrective Action/Partial Corrective Action Taken</u>
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Section I - Internal Control and Compliance Material to the Financial Statements:

IC 2002-1: Material Weakness - Segregation of Duties

See current year finding IC 2003-1 and Corrective Action Plan.

Section II - Internal Control and Compliance Material to Federal Awards:

None reported in the prior year.

Section III - Management Letter:

None presented in the prior year.

This schedule has been prepared by management.

St. Mary Parish Water and Sewer Commission No. 2

State of Louisiana

Corrective Action Plan

For The Year Ending September 30, 2003

<u>Reference Number</u>	<u>Description of Finding</u>	<u>Corrective Action Planned</u>	<u>Name(s) of Contact Person(s)</u>	<u>Anticipated Completion Date</u>
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Section I - Internal Control and Compliance Material to the Financial Statements:

IC 2003-1	Segregation of Duties	(See Response)	Don Ryan	Continue Monitoring
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Corrective Action Plan

The Board of Commissioners has provided the following response and corrective action plan to the segregation of duties finding. The Board has identified the following compensating controls that are in effect. The Board has always reviewed and approved invoices for payment or any other cash disbursements to be made. The Board has always required dual signatures of approved members on any checks to be written. The Board reviews the bank balances at the monthly meetings. A Board member is assigned the responsibility of opening the monthly bank statements received at the Commission's office and reviewing the cancelled check images and check signatures. The Board will consider changing the monthly bank statement mailing and reconciliation procedures. Due to the limited number of accounting personnel, the most ideal system of internal control or the most desirable accounting system may not be practicable. Also, the cost of additional employees might exceed any benefits gained. The Board acknowledges the loss of internal control that results with their limited staff and are constantly monitoring for any problems or irregularities.

Section II - Internal Control and Compliance Material to Federal Awards:

The auditor has determined that there were no federal awards received by the Commission therefore this section is not applicable.

Section III - Management Letter:

There was no management letter issued with this engagement.