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**SEWERAGE DISTRICT NO. 2
Of The Parish of St. Mary
State of Louisiana**
**Report On Examination Of
Financial Statements**
**For The Years Ended
September 30, 1999 and 1998**

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

Release Date MAR 0 7 2000 .

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Sewerage District No. 2
Parish of St. Mary
Bayou Vista, Louisiana

We have audited the accompanying financial statements of Sewerage District No. 2, a component unit of the Parish of St. Mary, State of Louisiana, as of and for the years ended September 30, 1999 and 1998, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 general purpose 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 Sewerage District No. 2 as of September 30, 1999 and 1998, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 24, 1999, on our consideration of Sewerage District No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedules and statistical data listed in the table of contents are presented for purposes of additional analysis and are not a required part of the component unit financial statements of Sewerage District 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.

LeBlanc and Carpenter

December 24, 1999
Morgan City, Louisiana

SEWERAGE DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Combined Balance Sheet - All Fund Types and Account Groups

September 30, 1999

	<u>Governmental</u> <u>Fund Types</u>		<u>Proprietary</u> <u>Fund Type</u>
	<u>Special</u> <u>Revenue</u> <u>Fund</u>	<u>Debt</u> <u>Service</u> <u>Fund</u>	<u>Sewerage</u> <u>System</u> <u>(Enterprise)</u>
ASSETS			
Cash	\$136,198	\$ --	\$ 51,762
Investments, at cost	--	--	604,045
Receivables			
Special assessments receivable			
Current	--	--	--
Delinquent	--	3,446	--
Due from other governmental units	--	--	53,065
Prepaid expenses	--	--	1,218
Sewerage property, plant, and equipment	<u>--</u>	<u>--</u>	<u>1,961,521</u>
TOTAL ASSETS	\$136,198	\$ 3,446	\$2,671,611
LIABILITIES			
Accounts payable	\$ --	\$ --	\$ 16,270
Due to other governmental units	--	--	13,577
Interest payable	--	--	--
Bonds payable, sewer certificates	<u>--</u>	<u>--</u>	<u>--</u>
TOTAL LIABILITIES	<u>--</u>	<u>--</u>	<u>29,847</u>
FUND EQUITY			
Contributed Capital			
Governmental	--	--	1,757,635
Retained Earnings			
Unreserved	--	--	884,129
Fund balance			
Restricted for intergovernmental commitment	136,198	--	--
Unreserved	<u>--</u>	<u>3,446</u>	<u>--</u>
TOTAL FUND EQUITY	<u>136,198</u>	<u>3,446</u>	<u>2,641,764</u>
TOTAL LIABILITIES AND FUND EQUITY	\$136,198	\$ 3,446	\$2,671,611

Totals
(Memorandum Only)

<u>9-30-99</u>	<u>9-30-98</u>
\$ 187,960	\$ 274,143
604,045	495,693
--	14,256
3,446	2,316
53,065	46,388
1,218	1,218
<u>1,961,521</u>	<u>2,032,057</u>
\$2,811,255	\$2,866,071
\$ 16,270	\$ 23,485
13,577	11,472
--	1,436
<u>--</u>	<u>17,620</u>
<u>29,847</u>	<u>54,013</u>
1,757,635	1,857,818
884,129	750,543
136,198	195,528
<u>3,446</u>	<u>8,169</u>
<u>2,781,408</u>	<u>2,812,058</u>
\$2,811,255	\$2,866,071

See notes to financial statements.

SEWERAGE DISTRICT NO. 2. OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types

For the Year Ended September 30, 1999

	Governmental Fund Types		Totals (Memorandum Only)	
	<u>Special Revenue</u>	<u>Debt Service</u>	<u>1999</u>	<u>1998</u>
REVENUES				
Intergovernmental revenue	\$208,209	\$ --	\$208,209	\$279,750
Special assessments-property	--	--	--	14,644
Interest income	<u>2,437</u>	<u>1,695</u>	<u>4,132</u>	<u>5,913</u>
TOTAL REVENUES	<u>210,646</u>	<u>1,695</u>	<u>212,341</u>	<u>300,307</u>
EXPENDITURES				
Intergovernmental expenditures	371,983	--	371,983	371,542
Debt service				
Principal retirement, sewer certificates	--	--	--	35,240
Interest expense	--	24	24	4,308
Administration costs	<u>--</u>	<u>249</u>	<u>249</u>	<u>263</u>
TOTAL EXPENDITURES	<u>371,983</u>	<u>273</u>	<u>372,256</u>	<u>411,353</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(161,337)	1,422	(159,915)	(111,046)
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	--	(6,145)	(6,145)	--
Operating transfers in	<u>102,007</u>	<u>--</u>	<u>102,007</u>	<u>151,300</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>102,007</u>	<u>(6,145)</u>	<u>95,862</u>	<u>151,300</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(59,330)	(4,723)	(64,053)	40,254
FUND BALANCE AT BEGINNING OF YEAR	<u>195,528</u>	<u>8,169</u>	<u>203,697</u>	<u>163,443</u>
FUND BALANCE AT END OF YEAR	<u>\$136,198</u>	<u>\$ 3,446</u>	<u>\$139,644</u>	<u>\$203,697</u>

See notes to financial statements.

SEWERAGE DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Sewerage Enterprise Fund
Statements of Income, Expenses and Changes in Retained Earnings
Proprietary Fund Type

For the years ended September 30, 1999 and 1998

	<u>9-30-99</u>	<u>9-30-98</u>
OPERATING REVENUES		
Charges for sewer service	\$315,737	\$312,501
Delinquent charges	4,459	4,160
Licenses and permits	<u>2,800</u>	<u>2,050</u>
TOTAL OPERATING REVENUES	<u>322,996</u>	<u>318,711</u>
 OPERATING EXPENSES		
Personal services		
Maintenance supervisor	12,000	12,000
Accounting and secretary	4,200	4,550
Board meetings	3,480	3,120
Operating services		
Sewerage treatment fees	145,654	143,360
Collection fees	14,400	14,400
Insurance	1,667	1,445
Audit fees	3,795	3,795
Legal fees and costs	999	--
Engineering	6,447	4,529
Repairs and maintenance	48,987	42,172
Bad debts	1,317	675
Utilities - pump station	10,581	12,390
Office expense	428	1,170
Advertising	279	310
Depreciation	<u>111,544</u>	<u>69,677</u>
TOTAL OPERATING EXPENSES	<u>365,778</u>	<u>313,593</u>

EXHIBIT C

	<u>9-30-99</u>	<u>9-30-98</u>
INCOME (LOSS) BEFORE NONOPERATING REVENUE AND EXPENSES	\$ (42,782)	\$ 5,118
NONOPERATING REVENUE (EXPENSES)		
Ad valorem taxes	145,737	119,995
Front foot assessment	--	8,900
Interest income	26,310	19,876
Loss on assets retired	<u>--</u>	<u>(1,934)</u>
TOTAL NONOPERATING REVENUE (NET)	<u>172,047</u>	<u>146,837</u>
INCOME (LOSS) BEFORE OTHER	129,265	151,955
DEPRECIATION TRANSFERRED TO EQUITY CONTRIBUTED	100,183	62,186
OTHER FINANCING SOURCES (USES)		
Operating transfer to other fund	(102,007)	(151,300)
Transfer from other fund	<u>6,145</u>	<u>--</u>
NET INCOME	133,586	62,841
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>750,543</u>	<u>687,702</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$884,129</u>	<u>\$750,543</u>

See notes to financial statements.

SEWERAGE DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Statement of Cash Flows - Proprietary Fund Type

For the years ended September 30, 1999 and 1998

Increase (Decrease) in Cash and Cash Equivalents

	<u>9-30-99</u>	<u>9-30-98</u>
Cash flows from operating activities:		
Cash received from customers	\$ 316,319	\$ 316,568
Cash payments for personal services	(19,680)	(19,670)
Cash payments for operating services	<u>(239,664)</u>	<u>(217,121)</u>
Net cash provided by (used for) operating activities	<u>56,975</u>	<u>79,777</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	<u>(41,008)</u>	<u>(56,615)</u>
Net cash provided (used for) capital and related financing activities	<u>(41,008)</u>	<u>(56,615)</u>
Cash flows from nonoperating revenues and expenses:		
Ad valorem taxes	145,737	119,995
Front foot assessments	--	8,900
Interest income	<u>26,310</u>	<u>19,876</u>
Net cash provided by nonoperating revenues and expenses	<u>172,047</u>	<u>148,771</u>
Cash flows from other financing uses:		
Transfer from other fund	6,145	--
Operating transfer to other fund	<u>(102,007)</u>	<u>(151,300)</u>
Net cash used for other financing uses	<u>(95,862)</u>	<u>(151,300)</u>
Net increase (decrease) in cash and cash equivalents	92,152	20,633
Cash and cash equivalents at beginning of year	<u>563,655</u>	<u>543,022</u>
Cash and cash equivalents at end of year	<u>\$ 655,807</u>	<u>\$ 563,655</u>

EXHIBIT D

	<u>9-30-99</u>	<u>9-30-98</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (42,782)	\$ 5,118
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	111,544	69,677
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(6,677)	(2,143)
(Increase) decrease in prepaid expenses	--	(222)
Increase (decrease) in accounts payable	(7,215)	11,627
Increase (decrease) in due to other governmental units	<u>2,105</u>	<u>(4,280)</u>
Net cash provided (used) by operating activities	\$ 56,975	\$ 79,777

See notes to financial statements.

SEWERAGE DISTRICT NO. 2
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 1999

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SEWERAGE DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Notes to Financial Statements

September 30, 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sewerage District No. 2 of the Parish of St. Mary, State of Louisiana was incorporated on March 23, 1960, under the authority of the State of Louisiana and the Parish of St. Mary. The District operates under a Board of Commissioners and provides sewerage services to the citizens residing within the boundaries of Sewerage District No. 2. The District is a public corporation and political subdivision of the State and is authorized to incur debt, issue bonds, levy taxes and collect assessments.

The financial statements of Sewerage District No. 2 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. 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 guides set forth in the Louisiana Municipal Audit and Accounting Guide and to the industry audit guide, Audits of State and Local Governmental Units, published by the American Institute of Certified Public Accountants.

Reporting Entity

GASB 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 Sewerage District 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, 1999. The Sewerage District No. 2 has followed GASB-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.

Fund Accounting

The accounting system is organized and operated on a fund basis whereby a separate self-balancing set of accounts is maintained for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board and all Financial Accounting Standards Board's statements and Interpretations, APB Opinions and ARBs issued, except for those that conflict with or contradict GASB pronouncements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUND TYPE

Enterprise Fund

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 District's Sewerage System is an enterprise fund.

GOVERNMENTAL FUND TYPES

Special Revenue Fund

The special revenue fund is used to account for the proceeds of revenue sources restricted to expenditure for specified purposes. The District's special revenue 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 J for additional details.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Their reported fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

The Sewerage System is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. An exception to this general rule is (1) principal and interest on general long-term debt which is recognized when due.

Budgets and Budgetary Accounting

The Sewerage District 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.

Definition of Cash and Cash Equivalents

For purposes of the statement of cash flows, the Sewerage District No. 2 considers all cash or investments (certificates of deposit only), to be cash or cash equivalents.

Investments

State statutes authorize the District to invest in direct obligations of the U.S. Treasury; obligations of any agency of the United States of America, provided the payment of principal and interest of such obligations is fully guaranteed by the United States; obligations of U.S. government instrumentalities which are federally sponsored; direct security repurchase agreements of obligations of the U.S. Treasury or U.S. government instrumentalities; time certificates of deposit or savings accounts; and mutual or trust fund institutions which have underlying investments consisting solely of and limited to securities of the United States government or its agencies.

Investments are stated at cost or amortized cost, which approximates market.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment and Long-Term Liabilities

The accounting and reporting treatment applied to property, plant and equipment and long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending “financial flow” measurement focus.

This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spending resources” during a period.

All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property, plant and equipment are valued at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental fund types are accounted for in the General Long-Term Debt Account Group, not in the governmental funds. This account group is not a “fund”. It is concerned only with the measurement of financial position. It is not involved with measurement of results of operations.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

All proprietary funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their report fund equity (net total assets) is segregated into contributed capital and retained earnings components.

Depreciation is provided in the enterprise fund in amounts sufficient to relate the cost of the depreciable assets, to operations over their estimated service lives on the straight-line basis. The service lives by type of asset are as follows:

Storage Building	33 Years
Distribution System	10-75 Years
Equipment	3-5 Years

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment and Long-Term Liabilities (Continued)

Certain assets have been constructed or acquired substantially with contributions in aid of construction. Net income includes depreciation on assets acquired from contributions; however, the depreciation applicable to assets acquired from contribution is transferred to the related contribution account rather than retained earnings.

Certain engineering services rendered for the Regional Sewerage Facilities to serve Wards 5 and 8 in St. Mary Parish were funded by St. Mary Parish Council contributions, the sale of bonds and Federal grants from the Environmental Protection Agency which were administered by the St. Mary Parish Council. The construction costs of the Regional Sewerage Facilities are being accounted for through an intergovernmental agreement between St. Mary Parish Council, the Town of Patterson and the Town of Berwick, as maintained by the Joint Sewer Commission Wards 5 and 8. Any amounts that were contributed by St. Mary Parish Council for Sewerage District No. 2's share of construction costs during the project are recorded by the St. Mary Parish Council.

Bad Debts

The Enterprise Fund contains no allowance for uncollectable accounts receivables which is a generally accepted accounting principle. Uncollectable receivables are charged off at the time information becomes available which would indicate the uncollectability of the particular receivable. The failure to utilize the allowance method to account for bad debts is not material to the financial statements.

Total Column on Combined Balance Sheet

The total column on the Combined Balance Sheet is captioned Memorandum Only to indicate it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE B - CASH AND INTEREST BEARING DEPOSITS

The Sewerage District No. 2 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. State law requires that deposits be fully collateralized at all times. Acceptable collateralization includes the \$100,000 FDIC/FSLIC insurance and the market value of securities purchased and pledged. Obligations of the United States, the State of Louisiana and certain political subdivisions are allowed as security for deposits. Obligations furnished as security must be held by the District or with an unaffiliated bank or trust company for the account of the District.

NOTE B - CASH AND INTEREST BEARING DEPOSITS (Continued)

The District's cash and investments are categorized to give an indication of the level of risk assumed by the District at September 30, 1999:

Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Uncollateralized or securities uninsured or unregistered and held by the counter party (this includes GNMA Pool investments and mutual fund shares held in "book-entry-only" form by brokerage firms)

Cash and investments (including restricted assets) stated at cost consist of the following:

Checking and money market accounts	\$187,960
Certificates of deposit	<u>604,045</u>
Total cash and investments	<u>\$792,005</u>

Cash and investments categorized by level of risk are:

	<u>Cost</u>	<u>Market Value</u>
Amounts insured by the FDIC or collateralized with securities held by the District in its name	\$755,807	\$755,807
Amounts collateralized with securities held by the pledging financial institution's trust department in the District's name	36,198	36,198
Uncollateralized, uninsured or unregistered	<u>---</u>	<u>---</u>
Total cash and investments	<u>\$792,005</u>	<u>\$792,005</u>

NOTE C - CHANGES IN PROPERTY, PLANT AND EQUIPMENT

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

<u>Property</u>	<u>Balance</u> <u>9-30-98</u>	<u>Additions</u>	<u>Transfers/</u> <u>Disposals</u>	<u>Balance</u> <u>9-30-99</u>
Land, Right of ways	\$ 46,685	\$ --	\$ --	\$ 46,685
Storage building	2,525	--	--	2,525
Distribution system	2,970,941	41,008	(5,939)	3,006,010
Equipment	<u>1,144</u>	<u>--</u>	<u>--</u>	<u>1,144</u>
Total Cost	\$3,021,295	\$ 41,008	\$(5,939)	\$3,056,364
Less accumulated depreciation at year end	<u>989,238</u>			<u>1,094,843</u>
Net property, plant and equipment	<u>\$2,032,057</u>			<u>\$1,961,521</u>

NOTE D - CHANGE IN ACCOUNTING ESTIMATE

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 will reduce income before extraordinary items and net income by \$38,502 for the year ending September 30, 1999. This change will also reduce income before extraordinary items and net income by \$38,502 for the next eight years and by \$15,406 for the following twenty-six years.

NOTE E - CONTRIBUTED CAPITAL

This District has received contributions from bonds and certificates, assessments and local sources accounted for in the Enterprise Fund for the purpose of acquiring or constructing capital facilities.

Retirement of contributions are the equivalent of the depreciation charge against the assets involved. The additions and major sources of contributed capital and other changes are as follows:

	<u>9-30-99</u>	<u>9-30-98</u>
Contributed capital at beginning of year	\$1,857,818	\$1,920,004
Contributions		
Federal EPA grant	--	--
Property assessments	--	--
St. Mary Parish Council	--	--
Other municipalities	--	--
Retirements		
Depreciation	<u>(100,183)</u>	<u>(62,186)</u>
Contributed capital at end of year	<u>\$1,757,635</u>	<u>\$1,857,818</u>

NOTE E - CONTRIBUTED CAPITAL (Continued)

	<u>9-30-99</u>	<u>9-30-98</u>
Cumulative contributed capital received from		
Federal EPA grant	\$ 967,597	\$ 967,597
Bonds and certificates	479,241	479,241
Assessments	494,607	494,607
St. Mary Parish Council	664,942	664,942
Other municipalities	<u>142,471</u>	<u>142,471</u>
Total contributed capital received	2,748,858	2,748,858
Less adjustment for accumulated depreciation on assets constructed substantially from contributed capital	(981,108)	(891,040)
Less assets retired	<u>(10,115)</u>	<u>---</u>
Contributed capital at end of year	<u>\$1,757,635</u>	<u>\$1,857,818</u>

NOTE F - DUE TO AND FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consisted of the following:

	<u>9-30-99</u>	<u>9-30-98</u>
Town of Berwick, La.	\$ 7,136	\$ --
St. Mary Waterworks District No. 2- (Inter-governmental service - Sewerage fees collected)	<u>45,929</u>	<u>46,388</u>
Total	<u>\$53,065</u>	<u>\$46,388</u>

Amounts due to other governmental units consisted of the following:

	<u>9-30-99</u>	<u>9-30-98</u>
Joint Sewer Commission Wards 5 and 8- (Sewerage treatment fees)	<u>\$13,577</u>	<u>\$11,472</u>
Total	<u>\$13,577</u>	<u>\$11,472</u>

NOTE G - RELATED PARTY TRANSACTIONS

Commissioners are compensated for their attendance at monthly and special meetings. The payments amounted to \$3,480 and \$3,120 for the years ended September 30, 1999 and 1998, respectively.

NOTE H - PENDING LITIGATION

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

NOTE I - BONDS AND INTEREST PAYABLE

Unmatured general long-term debt is generally accounted for in the General Long-Term Debt Account Group. However, the District had accumulated sufficient resources in the Debt Service Fund as of September 30, 1998 to retire all general long-term debt principle and interest outstanding on the 1989 Sewerage Certificates. Therefore, the remaining principle and interest had been recorded as current year debt service fund expenditures and fund liabilities. The principle amounts have been removed from the General Long-Term debt Account Group. The following schedule reconciles current year bond principle and interest recorded as expenditures:

	<u>Principle</u>	<u>Interest</u>
Due April 1, 1999	<u>\$ 17,620</u>	<u>1,460</u>
TOTAL	<u>\$ 17,620</u>	<u>\$ 1,460</u>

The bonds payable as of September 30, 1999 follows:

<u>Special Assessment Bonds Payable</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Balance Outstanding 9-30-98</u>	<u>Issued (Retired) During Year</u>	<u>Balance Outstanding 9-30-99</u>
Sewerage Certificates, 1989 Series	\$240,475	8.15%	<u>\$17,620</u>	<u>\$17,620</u>	<u>\$ 0</u>

NOTE J - AD VALOREM TAXES AND MAINTENANCE MILLAGE ASSESSMENT

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied by the District in September or October and are actually billed to taxpayers in November or December. Billed taxes become delinquent on January 1 of the following year. The St. Mary Parish Sheriff bills and collects property taxes for the District using the assessed values determined by the tax assessor of St. Mary Parish. District property tax revenues are budgeted in the year billed.

For the year ended September 30, 1999, 10.0 mills were authorized and dedicated as follows:

Sewerage system maintenance and improvements 10.0 mills

On July 20, 1996, a proposition to levy a ten mills tax on all property subject to taxation in said Sewerage District No. 2 passed. The tax levy will be for a period of ten years beginning with the year 1996, ending with the year 2005, for the purpose of constructing, maintaining, improving, and operating the sewers and sewer disposal works for the District.

NOTE K - INTERGOVERNMENTAL AGREEMENT - CONTINGENCIES

The St. Mary Parish Council 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, 1995, 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 the remaining balance of the bond issue, \$4,519,016.75 which includes principle and interest. The balance due will be allocated \$3,411,857.68 to Sewerage District No. 2 and \$1,107,159.07 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 schedules. The District is accounting for the 3/4% sales tax received, transfers from the enterprise fund, and payments made to the St. Mary Parish Council for bond payments in a special revenue fund.

The St. Mary Parish Council is the owner of an undivided 45.20% of the regional sewer facilities pursuant to the *Local Services Agreement* executed May 1983. In consideration of the foregoing, the St. Mary Parish Council does bargain, sell, transfer, assign and set over unto the sewerage districts all rights, title and interest of the St. Mary Parish Council in and to that portion of the regional sewerage treatment facilities. The parish interest in the facilities will be attributed 75.5% to Sewerage District No. 2 and 24.5% to Sewerage District No. 8 upon fulfillment of all bond payment obligations.

EXHIBIT E
Continued

NOTE K - INTERGOVERNMENTAL AGREEMENT – CONTINGENCIES (Continued)

The required transfers to the St. Mary Parish Council to fund the bond principle and interest payments now attributable to Sewerage District No. 2 is as follows:

<u>Payment Date</u>	<u>Principle</u>	<u>Interest Due</u>	<u>Total Annual Debt Service</u>
June 1, 1996	\$ --	\$ 69,468.40	
December 1, 1996	240,886.51	69,468.40	\$ 379,823.31
June 1, 1997	--	61,137.00	
December 1, 1997	258,405.55	61,137.00	380,679.55
June 1, 1998	--	51,998.65	
December 1, 1998	273,734.67	51,998.65	377,731.97
June 1, 1999	--	46,250.21	
December 1, 1999	286,873.96	46,250.21	379,374.38
June 1, 2000	--	39,795.56	
December 1, 2000	297,823.34	39,795.56	377,414.46
June 1, 2001	--	32,945.62	
December 1, 2001	313,152.48	32,945.62	379,043.72
June 1, 2002	--	25,508.25	
December 1, 2002	328,481.60	25,508.25	379,498.10
June 1, 2003	--	17,542.57	
December 1, 2003	343,810.76	17,542.57	378,895.90
June 1, 2004	--	9,033.25	
December 1, 2004	<u>361,329.79</u>	<u>9,033.25</u>	<u>379,396.29</u>
Total Required Transfers	\$2,704,498.66	\$ 707,359.02	\$3,411,857.68
less amounts paid	<u>(773,026.73)</u>	<u>(411,458.31)</u>	<u>(1,184,485.04)</u>
Total Remaining Transfers	<u>\$1,931,471.93</u>	<u>\$ 295,900.71</u>	<u>\$2,227,372.64</u>

Sewerage District No. 2 anticipates approximately \$164,000 annually to be collected as its portion of the 3/4% sales tax for funding the required transfers for debt service. The remaining shortfall of approximately \$215,000 annually will be funded by additional revenues from a rate increase to the sewerage customers and an increase in the property tax millage on the assessed property within the District.

The District has made the following operating transfers to the special revenue 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	151,300
Year ending September 30, 1999	<u>102,007</u>
TOTAL	<u>\$434,307</u>

NOTE K - CONTINGENCIES AND UNCERTAINTIES (Continued)

As of September 30, 1999, the St. Mary Parish Council has made all required bond obligation payments on the public improvement bonds aforementioned.

NOTE L - YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the District's operations as early as fiscal year 1999.

Sewerage District No. 2 has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the District's operations:

- The District's utility billing system which is administered and maintained through an *intergovernmental agreement and financial reporting system* have been remediated. External vendors have remediated each of the computer systems and electronic equipment necessary for the District's utility billing system and financial reporting system and they believe them to be year 2000 compliant. Validation and testing have been completed by the District. Management has a viable contingency plan to manually prepare monthly utility bills and financial reports in the event of significant delays or problems are encountered in its Year 2000 remediation process.
- Ad valorem tax assessment, collection, and remittance for the District is handled by St. Mary Parish Assessor and St. Mary Parish Sheriff, respectively. The Assessor and Sheriff are responsible for remediating their systems, and are solely responsible for any costs associated with these projects. Both the Assessor and Sheriff have completed the remediation process on their systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the District is or will be Year 2000 ready, that the District's remediation efforts will be successful in whole or in part, or that parties with whom the District does business will be year 2000 ready.

SUPPLEMENTARY INFORMATION SECTION

SEWERAGE DISTRICT NO. 2 OF THE PARISH OS ST. MARY
STATE OF LOUISIANA

Combined Schedule of Investments

September 30, 1999

	<u>Maturity</u>	<u>Rate</u>	<u>Cost (Including Accrued Interest)</u>
ENTERPRISE FUND			
Certificates of deposit:			
Iberia Bank Morgan City, Louisiana	11-03-99	3.98%	\$ 93,462
MidSouth Bank Morgan City, Louisiana	12-31-99	5.50%	100,979
St. Mary Bank and Trust Morgan City, Louisiana	3-03-00	4.65%	102,688
MC Bank & Trust Co. Morgan City, Louisiana	1-14-00	4.25%	50,986
Whitney National Bank Morgan City, Louisiana	12-26-99	4.00%	50,022
Patterson State Bank Patterson, Louisiana	2-25-00	4.75%	102,825
Edward D. Jones & Co. Morgan City, Louisiana (Horicon State Bank)	2-17-00	5.00%	103,083
TOTAL SEWERAGE SYSTEM			<u>\$604,045</u>

SEWERAGE DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Payments for Board of Commissioners Meetings

For the year ended September 30, 1999

<u>Board Members</u>	<u>Term Expires</u>	<u>Number of Meetings Attended</u>	<u>Total Amount Received</u>
Herbert Adams, Chairman	6-1-2001	11	\$ 660
Don Ryan, Commissioner	5-1-2004	11	660
Dan McCloy, Commissioner	7-22-1999	10	600
Sonny Legendre, Commissioner	1-22-2002	12	720
Tony Hensgens, Commissioner	6-1-2002	12	720
L. Stan Robison, Commissioner	7-22-2004	2	<u>120</u>
		Total	<u>\$3,480</u>

SEWERAGE DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Insurance in Force

September 30, 1999

(Unaudited)

<u>Insurer</u>	<u>Kind of Insurance</u>	<u>Property Covered</u>	<u>Amount of Insurance</u>	<u>Expiration Date</u>
Nutmeg Ins. Co.	Public Entity General Liability and Auto Liability	Damages	\$2,000,000	7-2-00
Western Surety Co.	Public Employee Bond	Billy Mayon	\$ 10,000	7-31-00

SEWERAGE DISTRICT NO. 2
OF THE
PARISH OF ST. MARY
STATE OF LOUISIANA

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

PERIODS ENDED SEPTEMBER 30, 1999 AND 1998

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MEMBER:
AMERICAN 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
Sewerage District No. 2
Parish of St. Mary
Bayou Vista, Louisiana

We have audited the financial statements of Sewerage District No. 2, as of and for the years ended September 30, 1999 and 1998, and have issued our report thereon dated December 24, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 Sewerage District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. There were no prior year findings or management letter comments.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sewerage District No. 2's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 Sewerage District No. 2's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Our examination disclosed that there is very little segregation of duties within the District's accounting function, particularly in the areas of cash receipts, bank reconciliations, cash disbursements, general ledger and journal entries. This weakness is due to the fact that the District employs only two persons in the bookkeeping function. Due to the lack of segregation of duties, possible errors or irregularities could occur in the accounting records and not be detected. Understandably, 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 management of the District is well aware of the loss of internal control that results with their limited staff and are constantly on watch for any problems that would arise.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Commissioners (management), 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

December 24, 1999
Morgan City, Louisiana