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Financial Report

St. Tammany Parish Sewerage District No. 7

September 30, 2003

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

Release Date 3-24-07

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St. Tammany Parish Sewerage District No. 7

September 30, 2003

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FINANCIAL SECTION



George W. Bennett

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors,
St. Tammany Parish Sewerage District No. 7,
State of Louisiana,
Slidell, Louisiana.

We have audited the accompanying financial statements of St. Tammany Parish Sewerage District No. 7, State of Louisiana (the District), a component unit of St. Tammany Parish, State of Louisiana as of and for the year ended September 30, 2003, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Tammany Parish Sewerage District No. 7 as of September 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1c to the basic financial statements, the District has implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments, as of October 1, 2002.

Management's Discussion and Analysis on page 3 through 6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express an opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2003 on our consideration of the St. Tammany Parish Sewerage District No. 7'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.

Bourgeois Bennett, LLC.

Certified Public Accountants

New Orleans, Louisiana,
December 2, 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS

St. Tammany Parish Sewerage District No. 7

This section of the District's financial report presents our analysis of the District's financial performance during the year ended September 30, 2003. Please read it in conjunction with the basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net assets decreased by \$110 thousand or 4.6 percent.
- During the year the District's operating revenues decreased to \$142 thousand or 3.7 percent, while operating expenses increased to \$288 thousand or 11.6 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts: Management's Discussion and Analysis, Basic Financial Statements, and Supplementary Information. The Basic Financial Statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

REQUIRED BASIC FINANCIAL STATEMENTS

The Basic Financial Statements of the District report information about the District using accounting methods similar to those used by private sector businesses. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the District's operations over the year and can be used to determine whether the District has successfully recovered all its costs through its fees and other charges, profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments throughout the year. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

FINANCIAL ANALYSIS OF THE DISTRICT

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the District is in a better financial position as a result of the year's activities. These statements report the net assets of the District and changes in them. The net assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the District's net assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, population growth and new or changed government legislation.

NET ASSETS

To begin our analysis, a summary of the District's Statement of Net Assets are presented in Table A-1.

TABLE A-1
Condensed Statements of Net Assets
(In thousands of dollars)

	<u>September 30,</u>		Dollar	Total
	<u>2003</u>	<u>2002</u>	Change	Percent Change
Current and Other Assets	\$ 411	\$ 395	\$ 16	4.1%
Capital Assets	<u>1,971</u>	<u>2,100</u>	<u>(129)</u>	<u>(6.1%)</u>
Total Assets	<u>\$2,382</u>	<u>\$2,495</u>	<u>\$113</u>	<u>(4.5%)</u>
Long-term Debt Outstanding	\$ 37	\$ 52	\$ (15)	(28.8%)
Other Liabilities	<u>45</u>	<u>33</u>	<u>12</u>	<u>36.4%</u>
Total Liabilities	<u>82</u>	<u>85</u>	<u>(3)</u>	<u>(3.5%)</u>
Invested in Capital Assets, Net of Related Debt	1,919	2,033	(114)	(5.6%)
Unrestricted	<u>381</u>	<u>377</u>	<u>4</u>	<u>1.1%</u>
Total Net Assets	<u>2,300</u>	<u>2,410</u>	<u>(110)</u>	<u>(4.6%)</u>
Total Liabilities and Net Assets	<u>\$2,382</u>	<u>\$2,495</u>	<u>\$113</u>	<u>(4.5%)</u>

As can be seen from the table above, net assets decrease \$110 thousand to \$2,300 thousand in the year ended September 30, 2003. Long-term debt decreased as a result of \$15 thousand in payments toward outstanding principal during the year.

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

	For the year		Dollar Change	Total Percent Change
	Ended September 30 2003	2002		
Operating Revenues	\$ 142	\$ 137	\$ 5	3.7%
Non-Operating Revenues	36	31	5	16.1%
Total Revenues	178	168	10	6.0%
Depreciation and Amortization				
Expense	141	141	-	0.0%
Other Operating Expenses	147	117	30	25.6%
Total Expenses	288	258	30	11.6%
Change in Net Assets	(110)	(90)	(20)	(22.2%)
Beginning Net Assets	2,410	2,500	(90)	(3.6%)
Ending Net Assets	\$2,300	\$2,410	\$,110	4.6%

The Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of changes in net assets. The District's operating revenues increased by \$5 thousand to \$142 thousand in the year ended September 30, 2003. The District experienced a 16.1% increase in non-operating revenues as a result of recovery of assessment adjustments. The District's other operating expenses increased by \$30 thousand to \$147 thousand in the year ended September 30, 2003.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2003, the District had invested \$4,214 thousand in a range of infrastructure including sewerage system, building, and equipment as shown in Table A-3. This amount represents a net increase of \$12 thousand, or 0.3%, over last year.

**Table A-3
Capital Assets
(In thousands of dollars)**

	For the year Ended September 30		Dollar Change	Total Percent Change
	2003	2002		
Land	\$ 10	\$ 10	\$ -	0.0%
Sewerage system	4,095	4,087	8	0.2%
Building	88	88	-	0.0%
Furniture and equipment	22	19	4	21.1%
Subtotal	4,214	4,202	12	0.3%
Less accumulated depreciation	2,243	2,182	161	6.7%
Net book value	\$1,971	\$2,020	\$1,259	62.1%

LONG-TERM DEBT

At September 30, 2003, the District had \$37 thousand in long-term debt (due to EPA) down from \$52 thousand at September 30, 2002 for a decrease of \$15 thousand, which was the amount of 2003 principal payments on outstanding debt. More detailed information about the District's long-term debt is presented in the Notes to the Financial Statements. No new long-term debt was incurred in the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's Board of Directors and management considered many factors when setting the 2004 budget. One of these factors is the economy.

Operating revenues available for recovering operating expenses are projected to be \$134 thousand, a decrease of \$8 thousand over 2003 revenues. Non-operating revenues are projected to decrease due to lower interest earnings and fewer dollars to invest and the non-recurring recovery for assessment adjustments. Budgeted other operating expenses are expected to decrease over 2003 actual by 18.4% to \$129 thousand. A decrease in repair and maintenance is expected and increases in group health insurance, property insurance and administrative costs are expected to continue.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. If you have questions about this report or need additional financial information, contact St. Tammany Parish Sewerage District No. 7, State of Louisiana, P.O. Box 7118, Slidell, LA 70458.

STATEMENT OF NET ASSETS

St. Tammany Parish Sewerage District No. 7

September 30, 2003

ASSETS

Current

Cash and cash equivalents	\$ 128,588
Accounts receivable net of allowance for doubtful accounts of \$25,000	7,318
Current portion of assessments receivable, including billed interest, net of allowance for assessments receivable of \$140,000	26,460
Accrued interest on cash equivalents	190
Accrued interest on assessments	620
Prepaid insurance	3,817
Total current assets	377,183

Capital Assets

Non-depreciable	10,000
Depreciable, net	1,861,079
Total capital assets	1,871,079

Other

Non-current portion of assessment receivable	6,858
Real estate holdings	27,390
Total other assets	34,248
Total assets	\$ 2,382,480

See notes to financial statements.

LIABILITIES

Current		
Accounts payable	\$	18,805
Due to EPA		14,775
Deposits		<u>11,961</u>
Total current liabilities:		45,541
Long-Term		
Due to EPA		<u>36,939</u>
Total liabilities		<u>82,480</u>

NET ASSETS

Net Assets		
Invested in capital assets, net of related debt		1,919,365
Unrestricted		<u>380,835</u>
Total net assets		<u>2,300,200</u>
Total liabilities and net assets	\$	<u>2,382,480</u>

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS**

St. Tammany Parish Sewerage District No. 7

For the year ended September 30, 2003

Operating Revenues	
Sewerage fees	\$ 129,651
Other	9,800
Late fees	<u>2,135</u>
Total operating revenues	<u>141,586</u>
Operating Expenses	
Personal services:	
Salaries	17,862
Board of Supervisor fees	4,980
Payroll taxes	<u>1,791</u>
	<u>24,633</u>
Supplies and materials:	
Repairs and replacement	42,248
Office expense	7,818
Postage	<u>1,393</u>
	<u>51,459</u>
Outside services:	
Treatment plant usage	32,865
Utilities	14,961
Insurance	9,240
Professional fees	8,008
Telephone	1,354
Security	375
Miscellaneous	249
Provision for bad debts	<u>3,689</u>
	<u>79,132</u>

**Exhibit B
(Continued)**

Depreciation	<u>141,478</u>
Total operating expenses	<u>388,222</u>
Operating loss	<u>(146,626)</u>
Nonoperating Revenues	
Interest income from:	
Assessment receivables	7,459
Cash equivalents	3,933
Recovery for assessment adjustments	<u>25,000</u>
Total nonoperating revenues	<u>36,394</u>
Change in Net Assets	(110,232)
Net Assets	
Beginning of year	<u>2,410,232</u>
End of year	<u>\$ 2,300,000</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS**St. Tammany Parish Sewerage District No. 7**

For the year ended September 30, 2003

Cash Flows From Operating Activities	
Cash received from customers	\$ 146,157
Cash payments to suppliers for goods and services	(111,645)
Cash payments to employees for services and benefits	<u>(24,835)</u>
Net cash provided by operating activities	<u>9,677</u>
Cash Flows From Capital and Related Financing Activities	
Cash received from assessments	36,857
Acquisition of capital assets	(12,985)
Principal paid on amounts due BPA	<u>(14,715)</u>
Net cash used for capital and related financing activities	<u>(543)</u>
Cash Flows From Investing Activities	
Interest received	<u>3,983</u>
Net increase in cash and cash equivalents	13,121
Cash and Cash Equivalents	
Beginning of year	<u>136,467</u>
End of year	<u>\$ 149,588</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating loss	<u>\$ (146,636)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	141,478
Decrease (increase) in assets:	
Accounts receivable	3,782
Prepaid insurance	(1,145)
Increase (decrease) in current liabilities:	
Accounts payable	11,411
Deposits	<u>768</u>
Total adjustments	<u>156,305</u>
Net cash provided by operating activities	<u>\$ 9,677</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS**St. Tammany Parish Sewerage District No. 7**

September 30, 2003

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**a. Basis of Presentation**

The accompanying basic financial statements of the St. Tammany Parish Sewerage District No. 7 (the District) conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

b. Reporting Entity

St. Tammany Parish Sewerage District No. 7 is a component unit of the St. Tammany Parish Police Jury, the governing body of the Parish, and the governmental body with oversight responsibility. The accompanying basic financial statements present information only on the funds maintained by the District and do not present information on the police jury, the general government services provided by that governmental unit, or the other governmental units that comprise the governmental reporting entity.

c. Change in Accounting

In June 1999, GASB unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments. Certain of the more significant changes required by Statement No. 34 include for the first time a Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations. This and other changes are reflected in the accompanying basic financial statements (including notes to financial statements). The District has elected to implement the general provisions of Statement No. 34 in the current year.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Change in Accounting (Continued)

For the year ended September 30, 2003, the District also implemented the following additional GASB pronouncements:

- Statement 37 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus
- Statement 38 - Certain Financial Statement Disclosures

d. Method of Accounting

On October 1, 2000, the District adopted the provisions of Statement No. 34 which established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the 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 assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the 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 net assets component as the unspent 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** - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**d. Method of Accounting (Continued)**

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 basic financial statements of the District are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. Under GASB Statement No. 20, the District has elected not to apply Financial Accounting Standards Board provisions issued after November 30, 1989.

e. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Accordingly, actual results could differ from those estimates.

f. Cash and Cash Equivalents

Cash and cash equivalents includes amounts in regular checking accounts and short-term investments in certificates of deposit.

g. Accounts Receivable

Accounts receivable represent uncollected sewerage and late fees which are billed monthly. An allowance for doubtful accounts has been provided for the District's estimate of possible charge-offs as adjustments for sewer receivables.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Capital Assets

Capital assets are valued at historical costs or estimated cost if purchased or constructed. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add value to the asset or materially extend its useful life are not capitalized. Major outlays for capital assets and improvements are capitalized at completion on construction projects. The District also capitalizes a portion of interest expense as part of the historical costs of constructing expansions to the system.

Depreciation of all capital assets, excluding land, is calculated over the estimated useful lives using the straight-line method as follows:

<u>Type of Capital Asset</u>	<u>Depreciation Rate</u>
Sewer system	3.33%
Building	3.33%
Furniture and fixtures	14% - 30%

i. Vacation and Sick Leave

The District does not have a formal policy relating to vacation and sick leave.

j. Retirement

All employees are covered by social security.

k. Concentration of Credit Risk

The District provides services to an area near Slidell, Louisiana. This area is dependent on the New Orleans, Louisiana industries, fishing, and tourism. The primary area of risk is in accounts receivable. Service fees are unsecured. Front footage assessments are secured by lien.

Note 2 - RECLASSIFICATION OF RESTRICTED ASSETS

Restricted assets of \$385,618 as of September 30, 2002 were set aside to retire the claim with EPA. Because this constraint was placed on the net assets by the Board and not by any debt covenant with EPA, the restriction has now been removed. The removal of the restriction had no effect on net assets of \$2,410,252 at September 30, 2002.

Note 3 - CASH AND CASH EQUIVALENTS

Louisiana state law allows all political subdivisions to invest excess funds in obligations of the United States, certificates of deposit of state or national banks having their principal office in Louisiana or any other federally insured investment.

State law also requires that deposits of all political subdivisions be fully collateralized at all times. Acceptable collateralization includes the FDIC/FSLIC insurance and the market value of securities purchased and pledged to the political subdivision. Obligations of the United States, the State of Louisiana, and certain political subdivisions are allowed as security for deposit. Obligations furnished as security must be held by the political subdivision or with an unaffiliated bank or trust company for the account of the political subdivision.

Cash and cash equivalents are categorized into three categories of credit risk.

Category 1 includes deposits covered by federal depository insurance or by collateral held by the District or its agent in the District's name.

Category 2 includes deposits covered by collateral held by the pledging financial institution's trust department or its agent in the District's name.

Category 3 includes deposits covered by collateral held by the pledging financial institution, or its trust department or agent but not in the District's name and deposits which are uninsured or uncollateralized.

Note 3 - CASH AND CASH EQUIVALENTS (Continued)

The year end bank balances of deposits and the carrying amounts as shown on the statement of net assets are as follows:

	Bank Balances			Book Balance
	Risk Category			
	1	2	3	
Cash	\$ 34,381	\$ -	\$ -	\$ 34,381
Certificates of deposits	100,000		206,426	206,426
Totals	\$134,381	\$ -	\$206,426	\$340,807

At September 30, 2003, cash and certificates of deposit were adequately collateralized by securities held by unaffiliated banks for the account of the depositor. The Governmental Accounting Standards Board (GASB), which promulgates the standards for accounting and financial reporting for state and local governments, considers these securities uncollateralized. Even though the pledged securities are considered uncollateralized under the provisions of GASB Statement 3, Louisiana Revised Statute 38:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the depositor that the fiscal agent has failed to pay deposited funds upon demand.

Note 4 - ASSESSMENTS RECEIVABLE

When the Sewer System was constructed, property owners were assessed for \$2,012,590 to help pay for the system. The property owners had the option of paying their assessments in full or the District would bill them over a 20-year period for their assessments including interest at 9%. Assessments are billed on or about May 1 each year and payment is due shortly thereafter. Current portion of assessments receivable at September 30, 2003 includes an estimated May 1, 2004 billing of principal of \$8,858. The remaining portion represents unpaid interest and assessments previously billed.

Noncurrent assessments receivable represents assessments that are not scheduled to be billed until the following May. This principal amount will be billed in equal annual installments through May 2015 plus interest at 9%.

Note 4 - ASSESSMENTS RECEIVABLE (Continued)

As of September 30, 2003, the District's assessment accounts were as follows:

<u>Delinquent</u>	<u>Number of Accounts</u>	<u>Current Portion of Assessments Receivable</u>	<u>Noncurrent Portion of Assessments Receivable</u>	<u>Total</u>
Never paid	4	\$109,028	\$ 1,406	\$110,434
Sixteen years	2	6,810	301	7,111
Fifteen years	-	-	-	-
Fourteen years	2	10,708	1,201	11,909
Thirteen years	3	5,843	453	6,296
Twelve years	-	-	-	-
Eleven years	2	5,341	331	5,672
Ten years	-	-	-	-
Nine years	2	2,342	214	2,556
Eight years	1	1,026	115	1,141
Seven years	1	565	-	565
Six years	-	-	-	-
Five years	-	-	-	-
Four years	2	744	246	1,090
Three years	-	-	-	-
Two years	8	3,768	1,900	5,668
One year	16	13,427	3,090	16,517
Current	19	-	4,359	4,359
Subtotal	62	159,602	13,716	\$173,318
Amount to be billed May 1, 2004		<u>6,858</u>	<u>66,858</u>	
Totals		\$166,460	\$ 82,574	

The District has recorded \$140,000 as an allowance for assessments adjustment on these receivables.

Note 5 - CAPITAL ASSETS

Capital asset activities for the year ended September 30, 2003 was as follows:

	Balance October 1, 2002	Additions	Deletions	Balance September 30, 2003
Capital assets not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Total capital assets not being depreciated	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Capital assets being depreciated:				
Sewer system	4,086,439	8,474	-	4,094,913
Building	86,035	-	-	86,035
Furniture and fixtures	19,894	4,191	-	24,085
Total capital assets being depreciated	<u>4,191,368</u>	<u>12,665</u>	<u>-</u>	<u>4,204,033</u>
Less accumulated depreciation for:				
Sewer system	(2,842,774)	(177,206)	-	(3,020,980)
Building	(45,989)	(2,811)	-	(48,800)
Furniture and fixtures	(15,222)	(1,468)	-	(16,690)
Total accumulated depreciation	<u>(2,903,985)</u>	<u>(181,485)</u>	<u>-</u>	<u>(3,085,470)</u>
Total capital assets being depreciated, net	<u>1,287,383</u>	<u>(168,820)</u>	<u>-</u>	<u>1,118,563</u>
Total capital assets, net	<u>\$ 2,099,882</u>	<u>\$ (128,813)</u>	<u>\$ -</u>	<u>\$ 1,971,070</u>

Note 6 - DUE TO EPA

On February 17, 1993, the United States Environmental Protection Agency (EPA) issued an audit report regarding the District's construction grant for the Sewer Plant. The report requested a refund of \$103,428. The District had requested a hardship waiver of the assessment. On April 20, 1999 the EPA communicated to the District that its hardship waiver had been denied and on June 10, 1999 issued a demand for payment. On May 19, 2001, the District entered into an agreement to repay the \$103,428 in 28 quarterly payments of \$3,694. As of September 30, 2003, the amount due EPA was \$51,714 and payable in the following:

Year Ending September 30,	Amount
2004	\$14,775
2005	14,775
2006	14,775
2007	<u>7,389</u>
Total	<u>\$51,714</u>

Note 7 - BOARD OF SUPERVISORS MEETINGS

Attendance and payment for Board of Supervisors meetings for the year ended September 30, 2003 were as follows:

	Number of Meetings Attended	Payments
Itis Calogero	17	\$1,020
Estelle Christian	17	1,020
Donald Nash	17	1,020
Albert Wester	15	900
Salvador Diocides	17	<u>1,020</u>
Total		<u>\$4,980</u>

Note 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction to assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance in amounts it believes sufficient to cover the risks of loss to which it is exposed.

Note 9 - ECONOMIC DEPENDENCY

The District is dependent on the services of the City of Shidell for treatment plant usage.

SPECIAL REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS



Ernst & Young

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

To the Board of Supervisors,
St. Tammany Parish Sewerage District No. 7,
State of Louisiana,
Slidell, Louisiana.

We have audited the basic financial statements of St. Tammany Parish Sewerage District No. 7, State of Louisiana (the District), as of and for the year ended September 30, 2003, and have issued our report thereon dated December 2, 2003. 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 District's basic 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 statements 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 District's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 03-1.

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 amounts that would be material in relation to the basic 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 the reportable condition described above is not a material weakness.

This report is intended for the information of management, the State of Louisiana and the Legislative Auditor for the State of Louisiana, and is not intended to be and should not be used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bourgeois Bennett, LLC.

Certified Public Accountants.

New Orleans, Louisiana,
December 3, 2003.

SCHEDULE OF FINDINGS

St. Tammany Parish Sewerage District No. 7

For the year ended September 30, 2003

Section I - Summary of Auditor's Results

a) Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- + Material weakness(es) identified? ___ yes X no
- + Reportable condition(s) identified that are not
 considered to be material weakness X yes ___ none reported

- Noncompliance material to financial statements noted? ___ yes X no

b) Federal Awards

St. Tammany Parish Sewerage District No. 7 did not receive federal awards during the year ended September 30, 2003.

Section II - Financial Statement Findings

Compliance

No compliance findings material to the basic financial statements were noted during the audit for the year ended September 30, 2003.

Section II - Financial Statement Findings (Continued)

Internal Control

03-1 Criteria - Internal controls should be in place that provides reasonable assurance that all transactions are being recognized.

Condition - One employee performs the majority of the accounting functions of the District's office.

Questioned Costs - None.

Context - Not applicable.

Effect - The District's office has a lack of segregation of duties over financial reporting which may result in errors and irregularities not being detected in a timely manner.

Cause - A limited number of Board members assist in the accounting function.

Recommendation - We recommend the Board consider having Board members or other personnel involved in the accounting function, although to employ such controls may not be cost beneficial.

Views of responsible officials of the auditee when there is disagreement with the finding, to the extent practical - None.

Section III - Federal Award Findings and Questioned Cost

Not applicable.

REPORTS BY MANAGEMENT

SCHEDULE OF PRIOR YEAR FINDINGS

St. Tammany Parish Sewerage District No. 7

For the year ended September 30, 2002

Section I - Internal Control and Compliance Material to the Basic Financial Statements

Internal Control

No material weaknesses were noted during the audit of the basic financial statements for the year ended September 30, 2002.

82-1 Recommendation - We recommend the Board consider having Board members or other personnel involved in the accounting function, although to employ such controls may not be cost beneficial. Unresolved see Finding 83-1.

Compliance

No compliance findings material to the basic financial statements were noted during the audit for the year ended September 30, 2002.

Section II - Internal Control and Compliance Material To Federal Awards

St. Tammany Parish Sewerage District No. 7 did not receive federal awards during the year ended September 30, 2002.

Section III - Management Letter

A management letter was not issued in connection with the audit of the basic financial statements for the year ended September 30, 2002.

MANAGEMENT'S CORRECTIVE ACTION PLAN

St. Tammany Parish Sewerage District No. 7

For the year ended September 30, 2003

Section I - Internal Control and Compliance Material to the Basic Financial Statements

Internal Control

No material weaknesses were noted during the audit of the basic financial statements for the year ended September 30, 2003.

00-1 Recommendation - We recommend the Board consider having Board members or other personnel involved in the accounting function, although to employ such controls may not be cost beneficial.

Management's Response - The Board has neither the qualified personnel nor the funds to hire additional personnel to assist in the accounting functions.

Compliance

No compliance findings material to basic the financial statements were noted during the audit for the year ended September 30, 2003.

Section II - Internal Control and Compliance Material To Federal Awards

St. Tammany Parish Sewerage District No. 7 did not receive federal awards during the year ended September 30, 2003.

Section III - Management Letter

A management letter was not issued in connection with the audit of the basic financial statements for the year ended September 30, 2003.