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**SEWERAGE DISTRICT NO. 5
OF THE
PARISH OF ST. MARY
STATE OF LOUISIANA**

Annual Component Unit Financial Statements
with Independent Auditors' Report

and

Independent Auditors' Report on
Internal Accounting Control and Compliance

For the Year Ended
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 3.24.04

SEWERAGE DISTRICT NO. 5
OF THE
PARISH OF ST. MARY
STATE OF LOUISIANA

Annual Component Unit Financial Statements
with Independent Auditors' Report

AND

Independent Auditors' Report on
Internal Accounting Control and Compliance

FOR THE YEAR ENDED SEPTEMBER 30, 2003

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ADAMS & JOHNSON

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AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Sewerage District No. 5
Post Office Box 119
Centerville, LA 70522-0119

We have audited the accompanying component financial statements of the Sewerage District No. 5, of the Parish of St. Mary, 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 Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewerage District No. 5 as of September 30, 2003, 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.

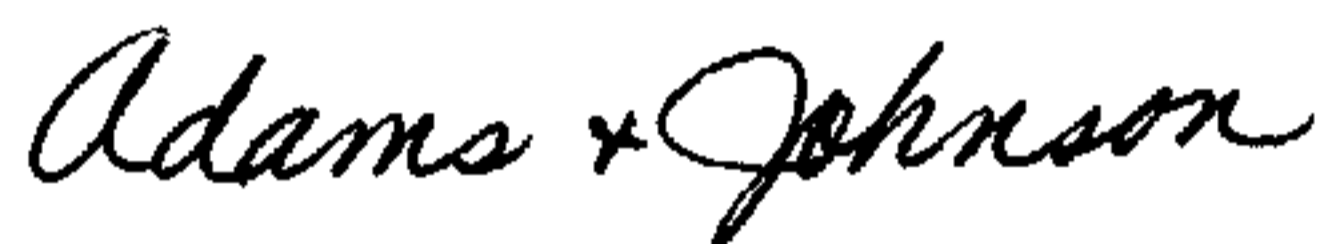
As described in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – For State and Local Governments*. This resulted in a change in format and content of the financial statements as of September 30, 2003.

The Management's Discussion and Analysis on pages 3 to 6 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information, as listed in the table of contents, while not considered necessary for a fair presentation of the financial statements, is presented as supplementary analytical data.

Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to auditing procedures applied in the audit of the financial statements, and in our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2004 on our consideration of the Sewerage District No. 5'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 considering the results of our audit.



ADAMS & JOHNSON
Certified Public Accountants

Patterson, Louisiana
March 8, 2004

SEWERAGE DISTRICT NO. 5
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of the financial performance of Sewerage District No. 5 provides an overview of the District's financial activities for the fiscal year ended September 30, 2003. Please read it in conjunction with the Commission's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

The District's net assets increased by \$104,675 for the year ended September 30, 2003.

The District's total General Fund operating revenues were \$304,241 and operating expenses were \$324,229 resulting in an operating loss (\$19,988).

The interest earned in all funds was \$8,324 for the year.

During the year ended September 30, 2003, the District was able to complete a major construction project to replace the chlorine contact chamber at the treatment plant at a cost of \$60,150.

USING THIS ANNUAL REPORT

This annual report consists of three parts – *Management's discussion and analysis*, the basic *financial statements*, and *supplementary information*. The basic financial statements consist of a series of financial statements. The Statement of Net Assets and the Statement of Activities found on pages 7 & 8 provide information about the financial activities of the District and illustrate a long-term view of the District's finances. Fund financial statements start on page 9. For governmental type activities, these statements *illustrate how these services were financed in the short-term and what remains for future spending*. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's significant funds.

Government-wide Statements

The government-wide statements report information about the District as a whole using the accrual method of accounting. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the District's net assets and how they changed. Net assets, the difference between the District's assets and liabilities is one way to measure the District's financial health or position.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

SUMMARY OF STATEMENT OF NET ASSETS

A summary of the basic government-wide financial statements is as follows:

	<u>Governmental Activities</u>
ASSETS	
Cash and cash investments	\$ 137,151
Prepaid expenses	7,366
Accounts receivable	20,149
Deposits	65
Restricted assets:	
Cash and cash investments	409,033
Capital assets:	
Construction in progress	34,107
Sewerage treatment facility	5,057,378
Vehicles	18,882
Equipment	111,978
Furniture	1,911
Accumulated depreciation	<u>(3,267,836)</u>
Total Assets	<u>\$ 2,530,184</u>
LIABILITIES	
Compensated absences	\$ 2,760
Accounts payable	8,782
Accrued interest payable	5,579
Refundable deposits	17,180
Long-term liabilities:	
Due within one year	295,000
Due after one year	<u>490,000</u>
Total Liabilities	\$ 819,301
NET ASSETS	
Invested in capital assets net of debt	\$ 1,171,420
Restricted for:	
Debt service	363,435
Capital projects	45,598
Unrestricted	<u>130,430</u>
Total Net Assets	<u>1,710,883</u>
Total Liabilities and Net Assets	<u>\$ 2,530,184</u>

SUMMARY OF STATEMENT OF ACTIVITIES

A summary of the basic government-wide financial statements is as follows:

	<u>Governmental Activity</u>
EXPENDITURES	
Advertising	\$ 1,424
Auto allowance	4,767
Dues and subscriptions	225
Chemicals	2,687
Computer expenses	266
Depreciation	209,667
Miscellaneous	4,670
Interest	47,610
Insurance general	9,412
Lab testing	1,275
Legal and auditing	4,478
Office expense	8,805
Per diems	4,740
Pond maintenance	18,000
Repairs and maintenance	17,342
Supplies	904
Utilities	20,236
Telephone	733
Training	1,296
Personal services	112,021
Total Expenditures	<u>\$ 470,558</u>
REVENUE	
Property taxes	\$ 319,379
Interest income	8,324
Sewer user fees	192,106
Other income	4,392
Parish Council grant	51,032
Total Revenues	<u>575,233</u>
Change in net assets	\$ 104,675
Net assets beginning of year	<u>1,606,208</u>
Net assets end of year	<u>\$ 1,710,883</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget was revised once during the year. Actual revenues exceeded budgeted revenues by \$34,541, while actual expenditures exceeded budgeted expenditures by \$21,343.

CAPITAL ASSETS

At the end of the year, the District has \$5,224,256 invested in capital assets, including, construction in progress, sewerage treatment facility, vehicles, equipment, and furniture. This year there were additions of \$110,948 and no disposals, reflecting a net increase in capital assets of \$110,948. More detailed information about the District's capital assets is presented in note 4 of the financial statements.

DEBT

As of September 30, 2003 the District had a total of \$785,000 in outstanding bonds payable. More detailed information about the District's debt is presented in note 5 of the financial statements.

FUTURE PLANNING

All of the District's operating expenditures are paid through property taxes and from sewer user fees. Currently the District collects property taxes based on 1.66 mills for the operations of the District. The current sewer user fees were established in 1995 and continue to be adequate. In May 2003, an election was held approving an annual tax assessment of 5.5 mills, which replaces the current 1.66 mills for a term of 15 years. The increased millage will be used for the constructing, improving, maintaining and operating sewerage facilities in the District. The revenue derived from this new tax assessment will assist the District in funding a proposed construction project to extend the District's service area. Additional funding is currently being sought through a loan application with the USDA Rural Development.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, participants and other interested parties with a general overview of the funds maintained by the District and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact St. Mary Parish Sewerage District No. 5 at P.O. Box 119, Centerville, LA 70522. The office is located at 9331 Highway 182 W., Centerville, LA 70522.

SEWERAGE DISTRICT NO. 5
 OF THE PARISH OF ST. MARY
 STATE OF LOUISIANA
 Statement of Net Assets
 September 30, 2003

	Governmental Activities
ASSETS	
Cash and cash investments	\$ 137,151
Prepaid expenses	7,366
Accounts receivable	20,149
Deposits	65
Restricted assets:	
Cash and cash investments	409,033
Capital assets:	
Construction in progress	34,107
Sewerage treatment facility	5,057,378
Vehicles	18,882
Equipment	111,978
Furniture	1,911
Accumulated depreciation	<u>(3,267,836)</u>
 Total Assets	 <u><u>\$ 2,530,184</u></u>
LIABILITIES	
Compensated absences	\$ 2,760
Accounts payable	8,782
Accrued interest payable	5,579
Refundable deposits	17,180
Long-term liabilities:	
Due within one year	295,000
Due after one year	<u>490,000</u>
Total Liabilities	<u>\$ 819,301</u>
NET ASSETS	
Invested in capital assets net of debt	\$ 1,171,420
Restricted for:	
Debt service	363,435
Capital projects	45,598
Unrestricted	<u>130,430</u>
Total Net Assets	<u>1,710,883</u>
 Total Liabilities and Net Assets	 <u><u>\$ 2,530,184</u></u>

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

SEWERAGE DISTRICT NO.5
 OF THE PARISH OF ST. MARY
 STATE OF LOUISIANA
 Statement of Activities
 For the Year Ended September 30, 2003

	<u>Governmental Activity</u>
EXPENDITURES	
Advertising	\$ 1,424
Auto allowance	4,767
Dues and subscriptions	225
Chemicals	2,687
Computer expenses	266
Depreciation	209,667
Miscellaneous	4,670
Interest	47,610
Insurance general	9,412
Lab testing	1,275
Legal and auditing	4,478
Office expense	8,805
Per diems	4,740
Pond maintenance	18,000
Repairs and maintenance	17,342
Supplies	904
Utilities	20,236
Telephone	733
Training	1,296
Personal services	112,021
Total Expenditures	<u>\$ 470,558</u>
REVENUE	
Property taxes	\$ 319,379
Interest income	8,324
Sewer user fees	192,106
Other income	4,392
Parish Council grant	51,032
Total Revenues	<u>575,233</u>
Change in net assets	\$ 104,675
Net assets beginning of year	<u>1,606,208</u>
Net assets end of year	<u><u>\$ 1,710,883</u></u>

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

SEWERAGE DISTRICT NO. 5
 OF THE PARISH OF ST. MARY
 STATE OF LOUISIANA
 COMBINED BALANCE SHEET
 All Fund Types and Account Groups
 September 30, 2003

	General Fund	Debt Service Funds	Capital Projects Fund	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 137,151	\$ 363,435	\$ 45,598	\$ 546,184
Deposits	65	-	-	65
Prepaid insurance	7,366	-	-	7,366
Accounts receivable	20,149	-	-	20,149
Total Assets	<u>\$ 164,731</u>	<u>\$ 363,435</u>	<u>\$ 45,598</u>	<u>\$ 573,764</u>
<u>Liabilities</u>				
Compensated absences	\$ 2,760	\$ -	\$ -	\$ 2,760
Accounts payable	8,782	-	-	8,782
Refundable deposits	17,180	-	-	17,180
Total Liabilities	<u>\$ 28,722</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,722</u>
<u>Fund Balances</u>				
Reserved for:				
Debt service	\$ -	\$ 363,435	\$ -	\$ 363,435
Capital project	-	-	45,598	45,598
Unreserved - undesignated	136,009	-	-	136,009
Total Fund Balances	<u>136,009</u>	<u>363,435</u>	<u>45,598</u>	<u>545,042</u>
Total Liabilities and Fund Balances	<u>\$ 164,731</u>	<u>\$ 363,435</u>	<u>\$ 45,598</u>	<u>\$ 573,764</u>

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

SEWERAGAE DISTRICT NO. 5
 OF THE PARISH OF ST. MARY
 STATE OF LOUISIANA
 Reconciliation of the Government Funds Balance Sheet
 to the Government-Wide Statement of Net Assets
 September 30, 2003

Total Fund Balances - Governmental Funds (Page 9) \$ 545,042

The purchase of capital assets are reported as expenditures as they are incurred in the government funds. The Statement of Net Assets reports capital assets as an asset and these capital assets are depreciated over their estimated useful lives and are reflected as depreciation expense in the Statement of Activities.

Cost of Capital Assets at September 30, 2003	5,224,256
Less: Accumulated Depreciation as of September 30, 2003	(3,267,836)

Interest payable on long-term debts does not require current financial resources. Therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(5,579)
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Long-term liabilities are not due and payable in the current period and, therefore, they are not required in the governmental funds balance sheet.	<u>(785,000)</u>
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Net Assets - Government - Wide Statement (Page 7)	<u><u>\$ 1,710,883</u></u>
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The accompanying notes are an integral part of these financial statements.

SEWERAGE DISTRICT NO. 5
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA
Statement of Revenues, Expenditures,
and Changes and Fund Balances
For the Year Ended September 30, 2003

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenues				
Property taxes	\$ 54,544	\$ 264,835	\$ -	\$ 319,379
Interest earned	2,167	5,663	494	8,324
Sewer user fees	192,106	-	-	192,106
Other income	4,392	-	-	4,392
Parish Council grant	51,032	-	-	51,032
Total revenues	\$ 304,241	\$ 270,498	\$ 494	\$ 575,233
Expenditures				
Personal services	\$ 112,021	\$ -	\$ -	\$ 112,021
Operating services	101,260	-	-	101,260
Capital outlay	110,948	-	-	110,948
Debt services:				
Bond principal	-	275,000	-	275,000
Interest and fiscal charges	-	42,031	-	42,031
Total expenditures	324,229	317,031	-	641,260
Revenues over (under) expenditures	\$ (19,988)	\$ (46,533)	\$ 494	\$ (66,027)
Other financing sources (uses)				
Transfer in	\$ -	\$ 50,914	\$ 13,246	\$ 64,160
Transfer out	(53,089)	(11,071)	-	(64,160)
Total financing sources (uses)	(53,089)	39,843	13,246	-
Revenues and other financing sources over (under) expenditures and other financing uses	\$ (73,077)	\$ (6,690)	\$ 13,740	\$ (66,027)
Beginning of year	209,086	370,125	31,858	611,069
Fund Balances at end of year	\$ 136,009	\$ 363,435	\$ 45,598	\$ 545,042

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

SEWERAGE DISTRICT NO. 5
 OF THE PARISH OF ST. MARY
 STATE OF LOUISIANA
 Reconciliation of the Government
 Funds Statement of Revenues, Expenditures,
 and Changes in Fund Balance to the Statement of Activities
 September 30, 2003

Net change in fund balance - total governmental funds (Page 11)	\$ (66,027)
Government funds report capital outlay as expenditures.	110,948
However, in the statement of activities the cost of these assets are allocated over their useful lives and reported as depreciation expense.	(209,667)
The issuance of long-term debt (e.g. bonds) provides current resources to government funds, while repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	275,000
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest is not reported as an expenditure in governmental funds.	<u>(5,579)</u>
Changes in net assets of governmental activities (Page 8)	<u>\$ 104,675</u>

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

SEWERAGE DISTRICT NO. 5
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sewerage District No. 5 of the Parish of St. Mary, State of Louisiana was created by Ordinance No. 298 of the St. Mary Parish Police Jury, on February 24, 1984, for the purpose of establishing, acquiring, constructing, maintaining and operating a sewerage system for the benefit of the people of the District. The District encompasses all of the territory situated in Ward Four of St. Mary Parish.

The accounting and reporting policies of the District conform to generally accepted accounting principles as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517, and to the guides set forth in Louisiana Municipal Audit and Accounting Guide, and to the industry audit guide, Audits of State and Local Governmental Units.

The following is a summary of certain significant accounting policies:

A) REPORTING ENTITY

GASB Statement No. 14, *Governmental Reporting Entity*, established 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. Sewerage District No. 5, of the Parish of St. Mary, State of Louisiana, 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. Sewerage District No. 5 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) CHANGE IN ACCOUNTING

This financial statement has been prepared in conformity with GASB No. 34. In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

GASB Statement No. 34 creates new basic financial statements for reporting on Sewerage District No. 5’s financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting, and fund financial statements which present information for individual major funds rather than by fund type which had been the method of presentation in previously issued financial statements. Non-major funds are presented in total in one column in the fund financial statements.

The implementation of GASB Statement No. 34 caused the opening fund balance at September 30, 2002 to be restated in terms of net assets as follows:

Total fund balance - Governmental Fund - at September 30, 2002	\$ 611,069
Add: Cost of capital assets at September 30, 2002	5,113,308
Less: Accumulated depreciation at September 30, 2002	(3,058,169)
Less: Bonds issued and paid	<u>(1,060,000)</u>
Net assets at September 30, 2002	<u><u>\$ 1,606,208</u></u>

C) BASIS OF PRESENTATION

Sewerage District No. 5’s financial statements consist of the government-wide statements on all activities and the governmental fund financial statements.

Government-Wide Financial Statements:

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities for all activities of Sewerage District No. 5. The government-wide presentation is designed to provide a more comprehensive view of the government’s operations and financial position as a single economic entity.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF PRESENTATION (Continued)

Fund Financial Statements:

The fund financial statements are very similar to the traditional government fund statements as presented by governments prior to the issuance of statement GASB No. 34. The accounts of Sewerage District No. 5 are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following is the Governmental Fund of the Sewerage District No. 5:

Governmental Fund Type

General Fund – The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Project Fund – This fund is used to account for all resources for the acquisition or construction of capital facilities by the District

D) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Government-Wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

Fund Financial Statements:

All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing resources) and decreases (expenditures and other financing uses) in current assets.

The governmental fund financial statement is presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligations long-term debt, if any, is recognized when due. Allocations of cost such as depreciation are not recognized in governmental funds.

E) USE OF ESTIMATES

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) BUDGETS

The District is required by state law to legally adopt an annual budget for the General Fund. This budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles (GAAP).

Annual operating budgets are plans of current expenditures and the proposed means of financing them. Budgets are the primary means by which the acquisition, spending and service delivery activities of a government are legally controlled. The Board members must approve any revisions that alter the total expenditures. Budgeted amounts shown are as originally adopted or as amended by the Board.

G) BAD DEBTS

The financial statements contain no allowance for uncollectible accounts receivable 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.

H) CAPITAL ASSETS

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred.

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

Government-Wide Financial Statements:

In the government-wide financial statements, fixed assets are accounted for as capital assets. Depreciation of all exhaustible capital assets are recorded as a depreciation expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H) CAPITAL ASSETS (continued)

Government-Wide Financial Statements:

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Sewerage treatment facility	20 - 40 years
Equipment	5 - 12 years
Furniture	5 - 7 years
Vehicles	5 year

Fund Financial Statements:

In the fund financial statements, capital assets used in government fund operation are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

I) LONG-TERM OBLIGATIONS

In the government-wide financial statements, debt principal payments are reported as decreases in the balance of the liability on the Statement of Net Assets. In the fund financial statements, however, debt principal payments of governmental funds are recognized as expenditures when paid.

J) NET ASSETS/ FUND BALANCE

In the Statement of Net Assets, the difference between a government's assets and liabilities are recorded as net assets. The three components of net assets are as follows:

Invested in Capital Assets, Net of Related Debt

This category records capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes or other borrowings attributable to the acquisition, construction or improvement of capital assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) NET ASSETS/FUND BALANCE (Continued)

Restricted Net Assets

Net assets that are restricted by external sources such as banks or by law are reported separately as restricted net assets. When assets are required to be retained in perpetuity, these non-expendable net assets are recorded separately from expendable net assets. These are the components of restricted net assets.

Unrestricted Net Assets

This category represents net assets not appropriable for expenditures or legally segregated for a specific future use.

H) CASH AND CASH EQUIVALENTS

For financial statement purposes, cash and cash equivalents include demand deposits and certificates of deposit which have a maturity of three months or less. Cash and cash equivalents are stated at cost, which approximates market. The District may deposit funds with a fiscal agent bank and certain other financial institutions. 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 the U.S. government instruments which are federally sponsored; direct security repurchase agreements of obligations of the U.S. Treasury or U.S. government instrumentalities, time certificate of deposit or savings accounts; mutual or trust fund institutions which have underlying investments consisting solely of and limited to securities of the United States government or its agencies; Louisiana Asset Management Pool (LAMP); and any other investment allowed by state statute for local governments.

Investments are stated at cost or amortized cost when applicable.

NOTE 2 – CASH AND INTEREST BEARING DEPOSITS

As of September 30, 2003 the District's cash and interest bearing deposits are as follows:

	<u>Stated Value</u>	<u>Book Balance</u>
Checking and money market accounts	\$ 36,042	\$ 41,141
Certificate of deposits	269,425	269,425
LAMP	<u>240,717</u>	<u>240,717</u>
Total	<u>\$546,184</u> =====	<u>\$551,283</u> =====

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the market value of pledged 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 fiscal agent. These securities are held in the name of the pledging fiscal bank in 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.

Under the provision of the Governmental Accounting Standards Board (GASB) codification, accounts secured by securities which are not in the name of the governmental unit and held by the governmental unit or its agent are considered uncollateralized.

NOTE 2 – CASH AND INTEREST BEARING DEPOSITS (Continued)

The Sewerage District deposits are categorized to give an indication of the level of risk assumed by the Sewerage District No. 5 at September 30, 2003. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the District or by its agent in the entity'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 interest bearing deposits categorized by level of risk are:

Category 1 -	\$ 136,042
Category 2 -	169,425
Category 3 -	-----
Total	\$ 305,467 =====

The District had \$240,717 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, 2003 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, representatives of various organizations of local government, the Government Finance Officers Association of Louisiana, and the Society of Louisiana CPA's. Only local governments having contracted to participate in LAMP have an investment interest in its pool of assets. 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 issued, 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 those securities.

The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists 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 District.

NOTE 3 - TAXES

The District's property tax is levied in October of each year on the assessed value of property within the District's taxing area. Taxes are due and payable by December 31 and an enforceable lien attaches to the property on January 1. The taxes are collected on behalf of the District by the Sheriff and then remitted to the District. The District receives most of the ad valorem taxes in January and February.

NOTE 4 – CAPITAL ASSETS

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

	<u>Balance 1-Oct-02</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 30-Sep-03</u>
Governmental Activities:				
Capital assets not being depreciated:				
Construction in Progress	13,600	20,507	-	34,107
Total	<u>13,600</u>	<u>20,507</u>	<u>-</u>	<u>34,107</u>
Capital assets being depreciated:				
Sewerage Treatment Facility	4,985,051	72,327	-	5,057,378
Vehicles	18,882	-	-	18,882
Equipment	93,864	18,114	-	111,978
Furniture	1,911	-	-	1,911
Total	<u>5,099,708</u>	<u>90,441</u>	<u>-</u>	<u>5,190,149</u>
Less accumulated depreciation				
Sewerage Treatment Facility	(2,992,114)	(200,938)	-	(3,193,052)
Vehicles	(15,682)	(1,372)	-	(17,054)
Equipment	(48,767)	(7,212)	-	(55,979)
Furniture	(1,606)	(145)	-	(1,751)
Total accumulated depreciation	<u>(3,058,169)</u>	<u>(209,667)</u>	<u>-</u>	<u>(3,267,836)</u>
Total capital assets being depreciation, net	2,041,539	(119,226)	-	1,922,313
Governmental activities capital activities, net	<u>2,055,139</u>	<u>(98,719)</u>	<u>-</u>	<u>1,956,420</u>

NOTE 5 - LONG-TERM DEBT

The following is a summary of changes in the District's long-term debt account group:

	General <u>Obligation</u>
Bonds payable September 30, 2002	\$1,060,000
Retirements	<u>(275,000)</u>
Bonds payable September 30, 2003	\$ 785,000 =====

Bonds payable at September 30, 2003 are comprised of the following individual issues:

\$1,545,000 Sewerage System Bonds, Series 1997, due in annual installments of \$230,000 to \$260,000 through May 1, 2004, interest fixed at 5.2% payable from ad valorem taxes of the District. These bonds were issued for the advance refunding of all of the Series 1989 Bonds.	\$ 260,000
Municipal Facilities Revolving Loan (MFRL) for a loan amount of up to \$1,058,000. The total loan funded as of September 30, 2003 is \$807,805 due in annual installments of \$35,000 to \$50,000 through March 2015; interest fixed at 2.45% financed through the issuance of Sewerage Revenue Bonds Series 1994.	<u>525,000</u>
Bonds payable at September 30, 2003	\$ 785,000 =====

NOTE 5 - LONG-TERM DEBT (Continued)

The following is an approximation of future debt requirements of the bonds payable at September 30, 2003:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 295,000	\$ 25,954	\$ 320,954
2005	40,000	11,515	51,515
2006	40,000	10,535	50,535
2007	40,000	9,555	49,555
2008	40,000	8,575	48,575
2009-2013	230,000	26,583	256,583
2015-2016	<u>100,000</u>	<u>2,450</u>	<u>102,450</u>
	<u>\$ 785,000</u>	<u>\$ 95,167</u>	<u>\$ 880,167</u>
	=====	=====	=====

The District is subject to certain affirmative and negative covenants pursuant to its bond agreements. These covenants include but are not limited to:

1. Establishment and funding of certain debt service funds.
2. Preparation and adoption of budgets.
3. Preparation of independent audit of financial statements.
4. Restriction as to additional debt issuance.
5. Restriction as to investments.

NOTE 6 – PENSION PLAN

The District's employees are covered under the Employees Parochial Retirement System of Louisiana. The District opted to enter this retirement system instead of continuing with Social Security. The District began participation on January 1, 1997 and made contributions to this plan of \$ 4,603 for the year ended September 30, 2003. All full-time eligible employees of the District are members of the Parochial Employees Retirement System of Louisiana, a multiple-employer (cost-sharing) public employee retirement system (PERS), controlled and administered by a separate board of trustees. The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All eligible employees of the District are members of Plan A.

NOTE 6 – PENSION PLAN (Continued)

All eligible employees working at least 28 hours per week who are paid wholly or in part from the District's funds are eligible to participate in the system. Under Plan A, employees who retire at or after age 60 with at least 10 years of creditable service, at or after age 55 with at least 25 years of creditable service, or at any age with at least 30 years of creditable service are entitled to retirement benefit, payable monthly for life, equal to 3 per cent of their final-average salary for each year of creditable service. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may retire at the ages specified above and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established by state statute.

Funding Policy: Under Plan A, members are required by state statute to contribute 9.5% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 7.75% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Parochial Employees' Retirement System, Post Office Box 14619, Baton Rouge, Louisiana 70898-4619, or calling (225) 928-1361.

NOTE 7 – JOINT VENTURE / RELATED PARTIES

The Sewerage District No. 5, Waterworks District No. 5, and the Fire Protection District No. 2 are component units of the Parish. During the year ended September 30, 2002 they entered into a local services/cooperative endeavor agreement to jointly construct a multi-purpose building. The ownership interest is based on the following percentages: The Fire Protection District No. 2 66%, Sewerage District No. 5 17% and Water District No. 5 17%. The estimated cost of the building is approximately \$695,000 which will be funded by a \$530,000 grant with the remaining balance being funded by each District based on their ownership percentage. As of September 30, 2003 the District has incurred cost of \$34,107 on their share of the multi-purpose building. The Districts shall be responsible for maintenance of their respective portions of the multi-purpose building. Maintenance of the grounds surrounding the building shall be shared by the Districts.

NOTE 8 - COMPENSATION OF COMMISSIONERS

The Commissioners of the District received the following per diems for the year ended September 30, 2003:

<u>Commissioners</u>	<u>Amount</u>
Wendell C. Bogan	\$ 960
Phelo J. Keller	1,200
C.T. Paul	300
Hayward Verdun	1,080
William Lanclos	900
Wesley Simoneaux	<u>300</u>
	\$4,740
	=====

NOTE 9 – COMPENSATED ABSENCES

Employees earn vacation and sick leave annually at varying rates depending upon length of service. These compensated absences are allowed to accumulate from period to period if not used. The maximum amount of vacation days that can be carried over is 10 working days and must be taken by the employee within 45 days. Sick leave shall be accrued at the rate of one day per month up to 12 days per year. An employee cannot accrue more than 120 days of sick leave.

Upon termination an employee is compensated for the accumulated vacation time, but employees are not compensated for sick time unless termination is due to normal retirement. Normal retirement is when the employee meets the required qualifications to retire from the Parochial Retirement System.

As of September 30, 2003, the District's employees had \$12,763 in accumulated sick pay. The portion of this accumulated sick pay estimated to be due to employees retiring within the next year are recorded as a current liability. The District did not have any employees eligible for retirement within the next year, therefore, we did not record a current liability.

SEWERAGE DISTRICT NO. 5
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

General Fund
Schedule of Personal and Operating Expenditures
For the Year Ended September 30, 2003

	Governmental Fund Type
	General Fund
Personal Services	
Salaries	\$ 83,121
Payroll taxes and retirement	8,203
Group insurance	20,697
Total personal services	\$ 112,021
Operating services	
Advertising	\$ 1,424
Auto allowance	4,767
Dues and subscriptions	225
Chemicals	2,687
Computer expenses	266
Miscellaneous	4,670
Insurance general	9,412
Lab testing	1,275
Legal and accounting	4,478
Office expense	8,805
Per diem	4,740
Pond maintenance	18,000
Repairs and maintenance	17,342
Supplies	904
Utilities	20,236
Telephone	733
Training	1,296
Total operating services	\$ 101,260

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

SEWERAGE DISTRICT NO. 5
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Schedule of Insurance in Force
For the Year Ended September 30, 2003

(Unaudited)

<u>Insurer</u>	<u>Type of Insurance</u>	<u>Coverage</u>	<u>Expiration</u>
L.W.C.C. Ins.	Workers' Compensation		
	By Each Accident	\$100,000	09/02/04
	By Disease Policy Limit	\$500,000	
By Disease Each Employee	\$100,000		
Progressive Ins.	Vehicles		
	General Aggregate	\$500,000	08/20/04
	Each Occurrence	\$500,000	
American Alternative Ins.	General Liability		
	General Aggregate	\$1,000,000	09/02/04
	Each Occurrence	\$1,000,000	
	Fire	\$100,000	
C.N.A. Ins.	Property		
	Total Premises Limit	\$650,000	07/18/04
	Liability	\$1,000,000	
	General Aggregate	\$2,000,000	
Each Occurrence	\$1,000,000		
National Union Fire Ins. Co.	Public Officials Liability Ins.		
	Each Occurrence	\$1,000,000	05/15/04
	General Aggregate	\$1,000,000	
	Deductible	\$10,000	

SEWERAGE DISTRICT NO. 5
 OF THE PARISH
 OF ST. MARY
 STATE OF LOUISIANA
 DEBT SERVICE FUND
 COMBINED BALANCE SHEETS
 September 30, 2003

	1997 Sinking Fund	1994 Sinking Fund	1994 Reserve Fund	Total Debt Service Fund
<u>Assets and Other Debits</u>				
Cash and cash equivalents	\$ 279,314	\$ 30,038	\$ 54,083	\$ 363,435
Total assets & other debits	<u>\$ 279,314</u>	<u>\$ 30,038</u>	<u>\$ 54,083</u>	<u>\$ 363,435</u>
<u>Liabilities, Equity, and Other Credits</u>				
Fund balances				
Reserved for debt service	\$ 279,314	\$ 30,038	\$ 54,083	\$ 363,435
Total fund balances	<u>279,314</u>	<u>30,038</u>	<u>54,083</u>	<u>363,435</u>
Total liabilities, equity, and other credits	<u>\$ 279,314</u>	<u>\$ 30,038</u>	<u>\$ 54,083</u>	<u>\$ 363,435</u>

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

Sewerage District No. 5
of the Parish of St. Mary
State of Louisiana
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year ended September 30, 2003

	1997 Sinking Fund	1994 Sinking Fund	Reserve Fund	Total Debt Service Fund
<u>Revenues</u>				
Property taxes	\$ 264,835	\$ -	\$ -	\$ 264,835
Interest	4,564	359	740	5,663
Total revenues	269,399	359	740	270,498
<u>Expenditures</u>				
Debt Services:				
Bond principal	\$ 240,000	\$ 35,000	\$ -	\$ 275,000
Interest and fiscal charge	26,027	16,004	-	42,031
Total expenditures	266,027	51,004	-	317,031
Excess (deficiency) of revenues over expenditures	\$ 3,372	\$ (50,645)	\$ 740	\$ (46,533)
Other financing sources				
Transfer in General Fund	-	50,914	-	50,914
Transfer out Capital Project Fund	-	-	(11,071)	(11,071)
Total financing sources	-	50,914	(11,071)	39,843
Excess of revenues and other financing sources over (under) expenditures and other financing uses	\$ 3,372	\$ 269	\$ (10,331)	\$ (6,690)
Fund balance at beginning of year	275,942	29,769	64,414	370,125
Fund balance end of year	\$ 279,314	\$ 30,038	\$ 54,083	\$ 363,435

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

SEWERAGE DISTRICT NO. 5
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

DEBT SERVICE FUNDS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2003

NOTE 1 - DESCRIPTION OF FUNDS

1997 Sinking Fund - To accumulate monies for payment of the \$1,545,000 Refunding Bonds issued to defease their 1989 Series Bonds which were called in 1999. Debt Service is financed from the proceeds of the District's ad valorem taxes.

1994 Sinking Fund - To accumulate monies for payment of up to \$1,058,000 of Sewer Revenue Bonds Series 1994. Debt Service is financed from proceeds of a revolving loan from the Department of Environmental Quality. The loan will be repaid from portions of the District's sewer fees.

1994 Reserve Fund - The Reserve Fund is a reserve required by the \$1,058,000 1994 bond issue indenture. The reserve will be financed from portions of the District's sewer user fees.

SEWERAGE DISTRICT NO. 5
 OF THE PARISH
 OF ST. MARY
 STATE OF LOUISIANA
 CAPITAL PROJECTS FUND
 BALANCE SHEET
 September 30, 2003

	<u>Renewal and Replacement Fund</u>
<u>Assets</u>	
Cash and cash equivalents	<u>\$ 45,598</u>
Total Assets	<u><u>\$ 45,598</u></u>
 <u>Fund Balance</u>	
Fund Balance Reserved	<u>\$ 45,598</u>
Total Fund Balance	<u>45,598</u>
Total Liabilities and Fund Balance	<u><u>\$ 45,598</u></u>

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

SEWERAGE DISTRICT NO. 5
 OF THE PARISH
 OF ST. MARY
 STATE OF LOUISIANA
 CAPITAL PROJECTS FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE
 For the Year Ended September 30, 2003

	<u>Renewal and Replacement Fund</u>
<u>Revenues</u>	
Interest income	\$ 494
<u>Expenditures</u>	<u>-</u>
Excess of revenues over expenditures	\$ 494
Total other financing sources	
Transfer in General Fund	\$ 2,175
Transfer in Debt Service Fund	<u>11,071</u>
Total other financing sources	13,246
Excess of revenues and other financing sources over expenditures and other financing sources	\$ 13,740
Fund balance at beginning of year	<u>31,858</u>
Fund balance at end of year	<u><u>\$ 45,598</u></u>

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

SEWERAGE DISTRICT NO. 5
OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

CAPITAL PROJECTS FUNDS

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 - DESCRIPTION OF FUNDS

Renewal and Replacement Fund - To account for the receipt and expenditure of funds for the purpose of paying the costs of any unusual and extraordinary maintenance and any repairs, replacements, extensions and improvements to the system.

SEWERAGE DISTRICT NO. 5
 OF THE PARISH OF ST. MARY
 STATE OF LOUISIANA
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 General Fund
 For the Year Ended September 30, 2003

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
<u>Revenues</u>				
Property taxes	\$ 50,000	\$ 51,000	\$ 54,544	\$ 3,544
Sewer user fees	186,800	189,900	192,106	2,206
Other income	-	-	4,392	4,392
Interest earned	4,000	3,800	2,167	(1,633)
Parish Council grant	25,000	25,000	51,032	26,032
Total revenues	\$ 265,800	\$ 269,700	\$ 304,241	\$ 34,541
<u>Expenditures</u>				
Personal services	\$ 104,211	\$ 108,580	\$ 112,021	\$ (3,441)
Operating services	133,914	117,006	101,260	15,746
Capital outlay	3,000	77,300	110,948	(33,648)
Total expenditures	241,125	302,886	324,229	(21,343)
Excess of revenues over (under) expenditures	\$ 24,675	\$ (33,186)	\$ (19,988)	\$ 13,198
Total other financing sources Transfer out	(52,414)	(54,133)	(53,089)	1,044
Excess of revenues over (under) expenditures and other financing (uses)	\$ (27,739)	\$ (87,319)	\$ (73,077)	\$ 14,242
Fund balance at beginning of year	209,086	209,086	209,086	-
Fund balance at end of year	<u>\$ 181,347</u>	<u>\$ 121,767</u>	<u>\$ 136,009</u>	<u>\$ 14,242</u>

ADAMS & JOHNSON

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MEMBERS:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Commissioners
Sewerage District No. 5
Post Office Box 119
Centerville, LA 70522-0119

We have audited the basic financial statements of the Sewerage District No. 5 for the year ended September 30, 2003, and have issued our report thereon dated March 8, 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 Sewerage District No. 5'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 statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards. This instance of noncompliance is described in the accompanying schedule of findings and questioned costs as item 03-01.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sewerage District No. 5's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving 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. 5'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 03-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe item 03-2 to be a material weakness.

This report is intended solely for the use of management, the St. Mary Parish Council, and the Louisiana Legislative Auditor, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Sewerage District No. 5 is a matter of public record.



ADAMS & JOHNSON
Certified Public Accountants

Patterson, Louisiana
March 8, 2004

SEWERAGE DISTRICT NO.5
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2003

A. Summary of Audit Results:

1. The auditors' report expresses an unqualified opinion on the financial statements of Sewerage District No. 5.
2. One instance of noncompliance immaterial to the financial statements of Sewerage District No. 5, which is reported in accordance with *Government Auditing Standards*, was disclosed during the audit see finding item 03-01.
3. One reportable condition in internal control, which is a material weakness see finding item 03-02.

B. Findings:

03-01 Finding: Final expenditures exceeded final budgeted expenditures by more than 5 %.

Cause: The Sewerage District No. 5 amended their budget in August of 2003, but did not increase their budgeted expenditures enough to comply with Louisiana R.S. 39:1309.

Recommendation: We recommend that management periodically monitor their budgeted revenues and expenditures to actual revenue and expenditures to ensure this does not occur again.

Management's Response: We were not aware that our final actual expenditures exceeded our final budgeted expenditures by 5%. To ensure this does not occur again, we will periodically compare actual expenditures and revenues to our budgeted expenditures and revenues.

SEWERAGE DISTRICT NO. 5

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended September 30, 2003

03-02 Finding: Lack of segregation of duties.

Cause: Our examination disclosed that there is not any segregation of duties within the District's accounting function, (especially 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 one person to handle all accounting functions. Due to the lack of segregation of duties, possible errors or irregularities could occur in the accounting records and not be detected. Understandably, since the District only has one employee handling the accounting functions, the most ideal system of internal control or the most desirable accounting system may not be practicable. Also the cost of hiring additional employees to handle the accounting function might exceed any benefits gained. The management of the District is well aware of the loss of internal control that results with one employee handling the accounting functions and are constantly on watch for any problems that would occur.

Recommendation: Based upon the cost-benefit of hiring additional accounting personnel, it may not be feasible to achieve complete segregation of duties. We recommend that the District continues to closely monitor all records and transactions.

Response: Management concurs with recommendations.

SEWERAGE DISTRICT NO. 5
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended September 30, 2002

A. Summary of Prior Year Findings:

Finding: Lack of segregation of duties.

Status: This finding still exist see 03-02
on the schedule of the current year findings and questioned costs.