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Financial Report

***St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
and the Districts***

Chalmette, Louisiana

December 31, 1997

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

Release Date JUL 22 1998

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Department Of Public Works
Water and Sewer Division
And the Districts

December 31, 1997

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FINANCIAL SECTION



Georgalis Bennett

INDEPENDENT AUDITOR'S REPORT

To the St. Bernard Parish Council,
Chalmette, Louisiana.

We have audited the accompanying combined financial statements of the St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts, (the Division), component units of the St. Bernard Parish Government, State of Louisiana, as of and for the year ended December 31, 1997, as listed in the table of contents. These combined financial statements are the responsibility of management of the St. Bernard Parish Government Department of Public Works Water and Sewer Division. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts as of December 31, 1997, and the results of their operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 1998 on our consideration of the St. Bernard Parish Government Department of Public Works Water and Sewer Division and Districts' internal control over financial reporting and our test of their compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the combined financial statements of the Division taken as a whole. The accompanying supplemental information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the combined financial statements of the St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts. Such information, except for the Schedule of Metered Customers marked "Unaudited," on which we express no opinion, has been subjected to the procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

Bourgeois Bennett, LLC.

Certified Public Accountants.

New Orleans, La.,
June 5, 1998.

COMBINED BALANCE SHEET

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
And the Districts**

December 31, 1997

ASSETS

Current

Cash and cash equivalents	\$ 898,114
Customer receivables, net of allowance for doubtful accounts of \$44,646 (Note 1)	218,817
Unbilled charges	201,521
Inventory (Note 1)	134,664
Prepaid expenses	13,532
Total current assets	1,666,648

Restricted Assets

Cash and cash equivalents:	
Reserve fund debt service reserve	1,154,687
Reserve fund debt service account	474,228
Renewal and replacement account	861,588
Other debt service accounts	973,152
Customer meter deposits (Note 17)	150,896
Ad valorem taxes receivable	341,727
Total restricted assets	3,757,286

Property, Plant and Equipment, Net Of Accumulated Depreciation (Note 4)	41,385,425
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Unamortized Debt Expense (Note 5)	345,979
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Totals assets	\$47,255,678
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See notes to combined financial statements.

LIABILITIES

Current

Payable from current assets:

Accounts payable	\$ 272,296
Uninsured claims payable (Note 11)	96,772
Self-insurance claims payable (Note 12)	83,400
Leases payable (Note 7)	11,452
Salaries payable	87,508
Due to St. Bernard Parish Self-Insurance Fund	722,220
Total current liabilities payable from current assets	1,233,678

Payable from restricted assets:

Bonds payable (Note 8)	1,241,000
Accrued interest payable	332,303
Contractor deposits (Note 17)	1,089,654
Inspection deposit	24,300
Total current liabilities payable from restricted assets	2,987,257

Long-term liabilities:

Accrued vacation leave (Note 16)	258,062
Bonds payable (Note 8)	9,883,080
Total long-term liabilities	10,141,062

Total liabilities 13,961,797

Contingencies (Notes 18 and 19)

Fund Equity

Contributed Capital 15,779,692

Retained Earnings

Reserved: (Note 9)

Capital reserved and replacement	3,285,879
Construction	1,622,258
Debt service (deficit)	(942,991)
Unreserved	9,136,645

Total retained earnings 12,811,131

Total fund equity 28,590,823

Total liabilities and fund equity \$42,568,620

COMBINED STATEMENT OF REVENUES AND EXPENSES

St. Bernard Parish Government
 Department of Public Works
 Water and Sewer Division
 And the Districts

For the year ended December 31, 1997

Operating Revenues (Note 1)	
User fees	\$8,329,051
Other operating revenues	320,853
Total operating revenues	8,649,904
Operating Expenses (Note 1)	
Personal services and related benefits	2,710,188
Utilities	1,085,640
Contractual services, supplies, and materials	1,289,323
Professional services	150,548
Insurance and claims expense	82,169
Depreciation and amortization (Note 4)	2,344,178
Other	52,149
Total operating expenses	7,685,160
Operating Income	964,744
Nonoperating Revenues (Expenses)	
Ad valorem tax for debt retirement	383,367
Interest earnings:	
Construction	10,187
Other	134,486
Interest expense and bank fees	(608,744)
Deductions from ad valorem taxes for debt retirement	(18,478)
Total nonoperating revenues (expenses)	100,848
Net Income	\$ 1,065,592

See notes to combined financial statements.

COMBINED STATEMENT OF CHANGES IN FUND EQUITY

St. Bernard Parish Government
 Department of Public Works
 Water and Sewer Division
 And the Districts

For the year ended December 31, 1997

	Contributed Capital	Retained Earnings	Total
Fund Equity Beginning of Year	\$ 16,256,210	\$ 15,829,258	\$ 31,885,468
Net income		1,855,559	1,855,559
Other - donated items	477,894		477,894
Depreciation of assets purchased with contributed capital	(894,322)	594,322	-
Fund Equity End of Year	<u>\$ 15,779,682</u>	<u>\$ 17,619,131</u>	<u>\$ 33,398,813</u>

See notes to combined financial statements.

COMBINED STATEMENT OF CASH FLOWS

St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
And the Districts

For the year ended December 31, 1997

Cash Flows From Operating Activities	
Operating income	\$ 994,711
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation and amortization	2,344,176
(Increase) decrease in assets:	
Customer receivables	(21,522)
Unbilled charges	(259,029)
Inventory	(44,345)
Prepaid expenses	36,567
River intake receivable	346,500
Increase (decrease) in liabilities:	
Accounts payable and accounts Customer and inspection deposits	(276,300)
	88,629
Total adjustments	2,214,676
Net cash provided by operating activities	3,169,387
Cash Flows From Noncapital Financing Activities	
Ad valorem taxes - operations and maintenance	659,146
State revenue sharing	57,840
Decrease in negative cash balances implicitly financed	(1,153,681)
Loan from St. Bernard Parish Self Insurance Fund	722,220
Net cash provided by noncapital financing activities	285,525
Cash Flows From Capital Financing Activities	
Ad valorem taxes - debt retirement	826,618
Payments on capital lease	(17,602)
Interest paid on capital lease	(2,571)
Purchase of capital assets	(601,884)
Principal paid on bonds	(1,216,000)
Interest paid on bonds	(644,869)
Net cash used by capital financing activities	(1,645,998)

Cash Flows From Investing Activities	
Interest on cash management activities	134,673
Net Increase in Cash and Cash Equivalents	1,943,987
Cash and Cash Equivalents	
Beginning of year (Note 2)	1,557,758
End of year (Note 2)	\$ 3,501,745

See notes to combined financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS**St. Bernard Parish Government
Department Of Public Works
Water and Sewer Division
And the Districts**

December 31, 1997

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The St. Bernard Parish Water and Sewer Commission was created by an Intergovernmental agreement dated November 13, 1985, as ratified, confirmed and approved by Louisiana Revised Statute 33:7802 which became effective July 2, 1986. The statute declared the Commission to be a body politic and political subdivision of the State of Louisiana. It also gave the Commission the power to tax, incur debt and issue bonds. The powers of the Commission were exercised within the boundaries of St. Bernard Parish. The Commission's major operation was to provide water and sewerage services for the parish of St. Bernard. The Commission was composed of seven members representing the participating entities and assumed control of operations and began providing services effective with the close of business on December 31, 1985. Prior to that time, each water and sewerage services had been provided by five separate entities: St. Bernard Water District No. 1, St. Bernard Water District No. 2, St. Bernard Sewer District No. 1, St. Bernard Sewer District No. 2, and St. Bernard Sewer District No. 1-2. On December 31, 1985, St. Bernard Sewer District No. 1-2, a contractual entity that had performed sewerage operations for St. Bernard Sewer Districts No. 1 and No. 2, was dissolved. The other water and sewerage districts had separate boards which served primarily as tax levying entities.

On November 1, 1996, the St. Bernard Parish Water and Sewer Commission was consolidated and merged into the St. Bernard Parish Government (the Parish Government) and is now known as the St. Bernard Parish Government Department of Public Works Water and Sewer Division (the Division). The Commission was abolished and the parish council assumed all rights, revenues, resources, authority and obligations of the Commission. The water and sewer districts still exist as separate political subdivisions; however, the parish council is the governing authority. Each district retained its rights, revenues, resources, jurisdiction, authority, indebtedness and any other obligations it possessed prior to November 1, 1996, including the authority to continue to levy ad valorem taxes.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accompanying combined financial statements include the St. Bernard Parish Government Department of Public Works Water and Sewer Division, a department of the St. Bernard Parish Government. The combined financial statements also include the Districts which are separate component units of the parish government. The Division is responsible for water and sewerage operations of the parish and the Districts (St. Bernard Water District No. 1, St. Bernard Water District No. 2, St. Bernard Sewer District No. 1, and St. Bernard Sewer District No. 2). Ad valorem taxes are levied by the individual districts for the retirement of outstanding bonds.

The Division has two water plants that are capable of pumping and treating on the average 12,000,000 to 13,000,000 gallons of water per day. The maximum capacity is 20,000,000 gallons of water per day. In addition, it monitors and maintains 110 sewer lift stations. It also operates four sewerage treatment plants, one sewerage collection pond and two sewerage treatment package plants. The Division has 99 employees at December 31, 1997, of which (99%) are covered by a collective bargaining agreement which expires in the year 2000.

a) Reporting Entity

Government Accounting Standards Board (GASB) Statement No. 14 has established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability.

The criteria includes:

- 1) Appointment of a voting majority of the governing board
 - a) The ability of the parish government to impose its will on the organization,
 - b) The potential of the organization to provide specific financial benefits to or impose specific financial burdens on the parish government,
- 2) Organizations which are fiscally dependent,
- 3) Organizations for which the reporting entity's financial statements would be misleading if data of the Organization is not included because of the nature or significance of the relationship.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Reporting Entity (Continued)

Because the parish government is the governing board of the Districts, the Districts are determined to be component units of the St. Bernard Parish Government, the governing body of the parish and the governmental body with oversight responsibility. The accompanying combined financial statements present information only on the funds maintained by the Department of Public Works, Water and Sewer Division including Districts and do not present information on the Parish Government, the general government services provided by that governmental unit, or the other governmental units that comprise the governmental reporting entity.

b) Basis of Presentation

The accompanying combined financial statements of the Division have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units.

c) Fund Accounting

The Division is organized and operated on a fund basis whereby a separate set of self-balancing accounts (enterprise funds) is maintained that comprises its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the combined balance sheet. The Division's accounts are reported on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

The Division applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

The Enterprise Fund uses the following practices in recording certain revenues and expenses:

(i) Revenues

Customers are billed monthly and the accompanying combined financial statements provide for the accrual of charges billed but not collected, as well as for unbilled charges through the date of the combined balance sheet.

Ad valorem taxes and the related state revenue sharing (which is based on population and homesteads in the parish) are recorded in the year the taxes are assessed. Ad valorem taxes are assessed on a calendar year basis, become due on November 15 of each year, and become delinquent on December 31. The taxes are generally collected in December of the current year and January through March of the following year.

Substantially all other revenues are recorded when earned.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Basis Of Accounting (Continued)

iii) Expenses

Salaries are paid biweekly and are accrued at year end.

Unamortized debt expense of the Division is comprised of costs associated with the 1991 and 1994 Revenue Bond issues. The cost of issuance on the 1991 Revenue Bond issue of \$98,707 is amortized, using the straight-line method over the 19-year life of the bond. The cost of issuance on the 1994 Revenue Bond issue of \$266,655 is amortized using the straight-line method over the 19-year life of the bond. The remaining unamortized debt expense at December 31, 1997 is \$251,294.

Unamortized debt expense of Sewer District No. 1 is comprised of costs associated with the 1991 General Obligation Refunding Bond issue. The cost of issuance of \$36,700 is amortized using the straight-line method over the 11 $\frac{1}{2}$ year life of the bond. The remaining unamortized debt expense at December 31, 1997 is \$16,489.

Unamortized debt expense of Sewer District No. 2 is comprised of costs associated with the 1991 General Obligation Refunding Bond issue. The cost of issuance on the 1991 General Obligation Bond issue of \$147,360 is amortized using the straight-line method over the 13 $\frac{1}{2}$ year life of the bond. The remaining unamortized debt expense at December 31, 1997 is \$78,196.

Amortization of debt expense for the year ended December 31, 1997 was \$32,010.

Depreciation expense on all exhaustible fixed assets is determined by the straight-line method using the estimated useful life and is recorded as an operating expense during the accounting period.

Substantially all other expenses are recognized at the time the liability is incurred.

Note 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Use Of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

f) Cash and Cash Equivalents

Cash includes amounts in petty cash, demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in certificates of deposit. Under state law, the Division may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

g) Inventory

The Division maintains an inventory of parts and expendable supplies that is valued at the lower of cost or market. The inventory is recognized as an expense when consumed.

h) Interfund Receivables and Payables

Interfund receivables and payables between the Division and Districts have been eliminated on the combined balance sheet at December 31, 1997.

i) Restricted Assets

Certain proceeds of the Division's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the combined balance sheet because their use is limited by applicable bond covenants.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Fixed Assets And Long-Term Liabilities

Fixed assets of the Division are included on the combined balance sheet of the funds. Interest costs incurred during construction are not capitalized. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Fixed assets, other than those donated, are recorded at cost. Donated fixed assets, primarily water and sewer lines constructed by independent contractors, are recorded at estimated fair market value as of the date donated. Fixed assets are reported on the balance sheet net of accumulated depreciation.

Depreciation is computed using the straight-line method, over the following useful lives, stated in years:

	<u>Water and Sewer Division</u>	<u>Water District No. 1</u>	<u>Water District No. 2</u>	<u>Sewer Districts</u>
Pipeline systems	100	100	100	5 - 20
Buildings and improvements	50 - 100	50	33	25
Machinery and equipment	5 - 10	4 - 10	8 - 10	10 - 20
Water tanks	50 - 100	33	50	
Motor boxes	33 - 66	33	33	

Long-term liabilities are recognized within the enterprise funds.

k) Fund Equity

i) Contributed Capital

The Division's grants received that are restricted for the acquisition or construction of capital assets are recorded as contributed capital. Donated lines are also recorded as contributed capital. Contributed capital is amortized based on the depreciation recognized on that portion of the assets acquired from such contributions.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Fund Equity (Continued)

ii) Reserves

The Division's reserves represent those portions of fund equity legally segregated for a specific future use.

l) Allowance For Doubtful Accounts

The Division has established an allowance for doubtful accounts for write-off of delinquent accounts. The allowance is based on management's best estimate of uncollectible amounts. The allowance for doubtful accounts at December 31, 1997 is \$44,846.

Note 2 - CASH AND CASH EQUIVALENTS

State law requires deposits (cash and certificates of deposits) of all political subdivisions be fully collateralized at all times. Acceptable collateralization includes FICM 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 deposits. Obligations furnished as security must be held by the political subdivision, or with an unaffiliated bank, or with a trust company for the account of the political subdivision. In accordance with state law all cash and deposits were collateralized.

Cash and deposits are categorized into three categories of credit risk.

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

Category 2 includes deposits covered by collateral held by the pledging financial institution's trust department, or its agent in the Division'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 Division's name, and deposits which are uninsured or uncollateralized.

Note 2 - CASH AND CASH EQUIVALENTS (Continued)

At year end the carrying amount and the bank balances of deposits of the Division and its Districts are as follows:

	Bank Balance Category			Book Balance
	1	2	3	
Cash	\$2,879,816	\$ -	\$ -	\$2,701,745
Certificates of deposit	1,200,000	-	-	1,200,000
Totals	\$4,079,816	\$ -	\$ -	\$3,901,745

At December 31, 1997, cash and certificates of deposit in excess of the FDIC insurance were 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 39:1229 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.

For purposes of the Statement of Cash Flows, cash and cash equivalents consist of the following accounts:

	Beginning of Year	End of Year
Cash and cash equivalents:		
Nonrestricted	\$ 197,798	\$ 686,114
Restricted	1,738,960	3,215,631
Total cash and cash equivalents	\$1,937,758	\$3,901,745

For purposes of the statement of cash flows cash overdrafts are considered a noncapital financing inflow.

Supplemental cash flows information:	
Interest paid during the year	\$643,255
Noncash capital financing activity derived from	\$477,804

Note 3 - LEVIED TAXES

The following is a summary of authorized and levied ad valorem taxes for debt service for the year ended December 31, 1997:

	<u>Authorized Millage</u>	<u>Levied Millage</u>
Water District No. 1	Variable	.15
Sewer District No. 1	Variable	5.00
Sewer District No. 2	Variable	3.75

On April 5, 1997, there was an election to renew the operation and maintenance ad valorem tax of 3.34 mills for Water District No. 1 and 2.04 mills in Sewerage District No. 2. Both Millage renewals were rejected by the qualified voters. The estimated loss in revenue in 1997 due to the defeat is approximately \$250,000 in Water District No. 1 and \$450,000 in Sewerage District No. 2.

Note 4 - FIXED ASSETS

The following is a summary of the changes of the Division's fixed assets for the year ended December 31, 1997.

	<u>Balance January, 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 1997</u>
Land	\$ 141,500	\$ -	\$ -	\$ 141,500
Pipeline system	49,044,149	737,766	-	49,781,915
Fleet, machinery, and equipment	<u>33,408,399</u>	<u>341,924</u>	<u>-</u>	<u>33,750,323</u>
Total property, plant, and equipment	82,594,117	1,079,690	-	83,673,807
Less accumulated depreciation	<u>(59,908,216)</u>	<u>(2,312,166)</u>	<u>-</u>	<u>(62,220,382)</u>
Net property, plant, and equipment	<u>\$ 22,685,901</u>	<u>\$ 767,524</u>	<u>\$ -</u>	<u>\$ 23,453,425</u>

Note 4 - FIXED ASSETS (Continued)

The composition of property, plant and equipment at December 31, 1997 by entity, is as follows:

Division	\$ 33,427,421
Water District No. 1	20,774,808
Water District No. 2	2,828,377
Sewer District No. 1	9,775,787
Sewer District No. 2	<u>17,568,382</u>
 Total property, plant, and equipment	 83,673,807
 Less accumulated depreciation	 <u>(62,389,382)</u>
 Net property, plant, and equipment	 <u>\$ 21,284,425</u>

Depreciation expense totaled \$2,332,166 for the year ended December 31, 1997.

Note 5 - PENSION PLAN

Employees of the Division are members of the Parochial Employees Retirement System of Louisiana (System), a multiple-employer (cost sharing), public-employee retirement system (PERS). The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the Division are members of Plan A. For the year ended December 31, 1997, the total payroll for employees covered by the System under Plan A was \$1,983,357.

Plan Description - The Water and Sewer Division contributes to Plan A of the Parochial Employees' Retirement System of Louisiana (the System), cost-sharing multiple-employer defined benefit public employee retirement system (PERS), which is controlled and administered by a separate Board of Trustees. The System provides retirement, deferred and disability benefits, survivor's benefits as cost of living adjustments to plan members and beneficiaries. Act 305 of the 1952 Louisiana Legislative Session established the plan.

Note 5 - PENSION PLAN (Continued)

The System is governed by Louisiana Revised Statutes 11:1901 through 11:2015, specifically, and other general laws of the State of Louisiana. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Parochial Employees' Retirement System of Louisiana, P.O. Box 14619, Baton Rouge, Louisiana 70898-4619.

Funding Policy - Plan members are required to contribute 9.5% of their annual-covered salary and the Water and Sewer Division is required to contribute at an actuarially determined rate. The current rate is 7.25% of annual payroll. The contribution requirements of plan members and the Water and Sewer Division are established and may be amended by state statute. The Water and Sewer Division's contributions to the System for the years ended December 31, 1997, 1998 and 1999 were \$161,364, \$156,060 and \$161,212, respectively, equal to the required contributions for each year.

Note 6 - POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to the pension benefits described in Note 5, the Division provides post retirement health care benefits, in accordance with the Division's personnel policy, to all employees who retire either: 1) on or after attaining age 60 with at least 10 years of service, or 2) on or after attaining age 55 with at least 25 years of service, or 3) on or after attaining any age with at least 30 years of service. As of the year end, 17 retirees have met these eligibility requirements. These benefits for retirees and similar benefits for active employees are provided through an insurance company whose monthly premiums are paid by the Division. Retirees and active employees, however, are responsible for dependent coverage costs. The Division reimburses the first \$20,000 of validated claims for medical and hospitalization costs incurred by pre-Medicare retirees and their dependents. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the Division. During the year, expenses of approximately \$49,387 were recognized for post-retirement health care.

Note 7 - LEASES

a) Capital Lease

The Division records items under capital leases as assets and obligations in the accompanying financial statements. The Division has a capital lease for a computer billing system. The computer system is valued at \$43,371 and is payable in 36 monthly payments of \$1,493 which includes interest at 11.361%. The total due, excluding interest at December 31, 1997 is \$11,452. The amount recorded in the accompanying financial statements under current liabilities is \$11,452.

The following is a summary of future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments, as of December 31, 1997:

Total minimum lease payments for 1998	\$11,945
Less amount representing interest	____,493
Present value of net minimum lease payments	11,452
Less current portion	____,11,452
Long-term portion	\$_____

The total amount of assets recorded as capital leases which are included in fixed assets is \$63,738. The accumulated amortization of \$13,375 is included in accumulated depreciation as is current year amortization expense of \$6,174.

b) Operating Lease

The Division receives lease income from a right-of-way agreement. The annual rental income is \$2,500 and is payable for ten years beginning September 1, 1995. At the end of the lease period the agreement may be renegotiated at no less than \$2,500 a year.

Note 7 - LEASES (Continued)

The Division also receives lease income from three different tower lease agreements. The first lease is \$5,000 per year for a period of five years beginning August 9, 1993. The lease can be renewed for four additional five-year periods. The second lease is for \$6,000 per year. The lease commenced June 26, 1996 and is for a period of five years. The agreement can be renewed for four additional five-year periods. The third lease is for \$12,000 per year. The lease commenced August 12, 1998 and is for a period of five years. The lease agreement can be renewed for four additional five-year periods.

The Division also granted the St. Bernard Parish School Board the use of property at St. Bernard Highway and Palmetto Boulevard free of rent for a period of thirty years.

The future minimum rentals for the next five years and in the aggregate are:

Year Ending December 31,	
1998	\$25,500
1999	25,500
2000	20,500
2001	2,500
2002	2,500
Thereafter	____5,000
Total	\$81,500

Rental income for the year and December 31, 1997 was \$27,588.

Note 8 - LONG-TERM LIABILITIES

The following is a summary of long-term liabilities and the current portion due at December 31, 1997:

	Water and Sewer Division	Water District No. 1	Senior District		Total
			No. 1	No. 2	
Public improvements: general obligation and revenue bonds payable	\$8,168,000	\$135,000	\$445,000	\$2,964,000	\$11,712,000
Capital lease payable	11,452	—	—	—	11,452
Total	\$8,179,452	\$135,000	\$445,000	\$2,964,000	\$11,723,452
Less current portion: Public improvement and revenue bonds payable	895,000	135,000	60,000	311,000	1,401,000
Capital lease payable	11,452	—	—	—	11,452
Long-term portion	\$7,263,000	\$—	\$385,000	\$2,653,000	\$10,301,000

Public improvement bonds, general obligation, and water revenue comprised of the following individual issues:

a) Public Improvement And General Obligation Bonds

Public improvement and general obligation bonds are secured by the full faith and credit of the various Districts and are financed through the levy and collection of ad valorem taxes.

Note 8 - LONG-TERM LIABILITIES (Continued)

a) Public Improvement And General Obligation Bonds (Continued)

The statutory debt limitation for each district follows:

	<u>Limitation</u>	<u>Outstanding Debt</u>
Water District No. 1	\$23,500,773	\$ 155,000
Sewer District No. 1	4,008,097	443,000
Sewer District No. 2	20,563,215	2,360,000
Total	<u>\$48,051,085</u>	<u>\$2,958,000</u>

The bonds were issued to construct improvements and extensions to the waterworks and sewerage systems. Public improvement bonds are comprised of the following individual issues:

- 1) \$2,500,000 Public Improvement Bonds of the Water District No. 1 issue of September 1, 1973, due in annual installments of \$155,000 bearing an interest rate of 5.70 percent through March 1, 1998. Amount outstanding - \$155,000.
- 2) \$675,000 General Obligation Refunding Bonds of the Sewer District No. 1 issue of September 1, 1991, due in annual installments of \$10,000 to \$90,000 bearing interest rates of 5.2% to 6.5% through March 1, 2003. Amount outstanding - \$443,000.
- 3) \$240,000 Public Improvement Bonds of the Sewer District No. 2 issue of June 1, 1971, due in annual installments of \$1,000, bearing an interest rate of 6.00% through February 1, 2001. Amount outstanding \$4,000.
- 4) \$3,395,000 General Obligation Refunding Bonds of the Sewer District No. 2 issue of September 1, 1991, due in annual installments of \$170,000 to \$340,000 bearing interest rates of 5.2% to 6.650% through March 1, 2005. Amount outstanding - \$2,360,000.

Note 8 - LONG-TERM LIABILITIES (Continued)

b) Revenue Bonds

On April 1, 1994, \$7,195,000 of the 1986 Revenue Bond was defeased. The bonds had interest rates ranging from 7.50% to 8% and debt service payments from \$400,000 to \$600,000. As a result of the defeasance \$7,950,000 Series 1994 Revenue Refunding Bonds were issued. The interest rate on the new bonds ranges from 3% to 5.25% and the bonds mature on August 1, 2008 with debt service payments due in annual principal installments ranging from \$115,000 to \$940,000. The balance outstanding at December 31, 1997 is \$7,649,000. The 1991 Revenue Bonds are due in annual principal installments of \$40,000 to \$135,000, bearing interest rates of 6.00 to 7.38 percent through August 1, 2011. The balance outstanding at December 31, 1997 is \$3,138,000.

The bonds are payable solely from and secured by a first lien upon and a pledge of the net revenues of the system. The revenues pledged by the Water and Sewer Division include all fees, rents, charges, and other income derived, or to be derived by or for the account of the Division from, or for, the ownership, operation, use, or services of the system and any other amounts paid into and credited to the revenue fund created by the 1991 and 1994 revenue bond resolutions. Such revenues include, but are not limited to, proceeds of any ad valorem taxes received by the Division pursuant to the terms of the intergovernmental agreement. Such revenues exclude (a) federal, state, or local government monies received for capital improvements to the system and (b) amounts necessary to pay the reasonable and necessary current expenses of operating and maintaining the system.

Pursuant to a resolution, the Water and Sewer Division has agreed in each bond year to fix, establish, and collect such rates and collect such fees, rentals, or other charges for all services, after making due allowance for delinquencies in collection and after providing for the payment of the reasonable and necessary expenses of operating and maintaining the system, to produce net revenues (1) that are sufficient to pay debt service on all outstanding bonds and to maintain the funds and accounts established in the resolution and (2) that result in each fiscal year in the greater of (a) the sum of debt service payable on the bonds in the ensuing fiscal year plus any required deposit to the Debt Service Reserve Fund or (b) a ratio of net revenues to average annual debt service of not less than 1.25 to 1. The ratio of net revenues to average annual debt service for the year ended December 31, 1997,

Note 8 - LONG-TERM LIABILITIES (Continued)

h) Revenue Bonds (Continued)

is 3:07 to 1. The ratio is less than the minimum requirements of the bond indenture. The bond agreement requires the Water and Sewer Division to establish and maintain the following accounts:

1. A debt service account with monthly deposits of one-twelfth of the annual principal and interest payment to pay promptly and fully the principal and interest on the loan as it becomes due and payable.
2. A debt service reserve account with the sum equal to the maximum annual debt service on the bonds.
3. A renewal and replacement account with monthly deposits of 3% of the prior month's operating expenses, which will be used to care for extensions, additions, improvements, renewals, and replacements necessary to properly operate the system.

The Division has established and maintained these accounts, and at December 31, 1997, the cash and cash equivalent balances in the debt service account, the debt service reserve account, and the renewal and replacement account are \$474,328, \$1,154,687, and \$863,588, respectively. The account balances in the debt service reserve and renewal and replacement account exceed the minimum requirements of the bond indenture. The account balance in the debt service account is less than the minimum requirements of the bond indenture.

The following is a summary of the bonds payable transactions for the year ended December 31, 1997:

	Water and Sewer Division	Water District No. 1	Sewer District		Total
			No. 1	No. 2	
Outstanding at January 1, 1997	\$8,834,080	\$719,000	\$485,000	\$2,685,000	\$12,348,080
Payments	<u>— 678,000</u>	<u>— 155,000</u>	<u>— 80,000</u>	<u>— 311,000</u>	<u>— 1,214,000</u>
Outstanding at December 31, 1997	<u>\$8,156,080</u>	<u>\$564,000</u>	<u>\$405,000</u>	<u>\$2,374,000</u>	<u>\$11,534,080</u>

Note 8 - LONG-TERM LIABILITIES (Continued)

b) Revenue Bonds (Continued)

The annual requirements to amortize all bonds outstanding at December 31, 1997, including interest are as follows:

Year Ending December 31,	Principal	Interest	Total
1998	\$ 1,241,000	\$ 581,840	\$ 1,822,840
1999	1,326,000	523,298	1,849,298
2000	1,366,000	465,595	1,831,595
2001	1,201,000	405,314	1,606,314
2002	1,255,000	341,818	1,596,818
2003 - 2011	<u>5,135,000</u>	<u>860,691</u>	<u>5,995,691</u>
Totals	<u>\$11,524,000</u>	<u>\$5,078,156</u>	<u>\$16,602,156</u>

Note 9 - RESERVED RETAINED EARNINGS

The St. Bernard Water and Sewer Division has established three reserves as reflected on the balance sheet, as follows:

- a) Reserve for capital removal and replacement - accumulates monies to care for excavations, additions, improvements renewals, and replacements necessary to properly operate the sewerage system. Such monies will also be available to pay the principal and interest on outstanding bonds in the event funds are not sufficient in the debt service and debt service reserve accounts. (Minimum deposits are made monthly to the reserve account from revenues in an amount equal to 3% of the prior month's operating expenses.) In addition, net assets acquired with the Water and Sewer Division's funds are included in the reserve per board resolution. The reserved retained earnings are \$7,205,819 at December 31, 1997.

Note 9 - RESERVED/RETAINED EARNINGS (Continued)

- b) Reserve for construction - established in accordance with bond requirements and the Water and Sewer Division's resolution. The reserved funds pay for construction projects required by the United States Environmental Protection Agency. The Division also irrevocably pledges money held in this reserve to the bond holders as additional security for the bonds. Upon completion of the projects, any remaining funds will be reserved for debt service to satisfy any deficiency in funds needed to pay principal and interest on the \$1,350,000 bond issue dated December 1, 1991 and principal and interest on the \$7,990,000 bond issue dated April 1, 1994. In addition, the construction projects are capitalized when completed and included in the reserve and the long-term portion of the 1991 and 1994 revenue bonds payable to reduce the reserve. The reserved retained earnings are \$1,622,258 at December 31, 1997.
- c) Reserve for debt service - this reserve consists of two accounts. 1) The debt service account accumulates money from the net addition revenues for the payment of interest and principal on the 1991 and 1994 revenue bonds. 2) The debt service reserve account accumulates interest on the \$1,111,165 of bond proceeds set aside for the benefit of bond holders. In addition, the related 1991 and 1994 bond principal and interest reduces the reserve. As of December 31, 1997, the reserved retained earnings deficit was \$(247,391).

Note 9 - RESERVED RETAINED EARNINGS (Continued)

The components of the reserve accounts are as follows:

	Reserve For Capital Reserve and Replacement	Reserve For Construction	Reserve For Debt Service
Assets			
Cash and cash equivalents	\$ 863,588	\$ -	\$1,629,015
Property, plant and equipment and bond insurance cost - net	<u>6,353,683</u>	<u>17,020,482</u>	<u> -</u>
Total assets	<u>7,217,271</u>	<u>17,020,482</u>	<u>1,629,015</u>
Liabilities			
Current portion of bonds payable	-	-	695,000
Accrued interest payable	-	-	170,240
Lease payable	11,452	-	-
Long-term 1991 and 1994 revenue bonds payable	<u> -</u>	<u>6,353,835</u>	<u>1,111,188</u>
Total liabilities	<u>11,452</u>	<u>6,353,835</u>	<u>1,876,428</u>
Contributed Capital	<u> -</u>	<u>9,046,389</u>	<u> -</u>
Reserved Retained Earnings	<u>\$7,205,819</u>	<u>\$1,620,258</u>	<u>\$1,442,387</u>

Notes 10 - PROPRIETARY FUNDS (SEGMENT INFORMATION)

Segment information for the Water and Sewer Division's enterprise funds is as follows:

	Water and Sewer Division	Water District		Sewer District		Total
		No. 1	No. 2	No. 1	No. 2	
Operating revenues	\$ 8,649,964	\$ -	\$ -	\$ -	\$ -	\$ 8,649,964
Operating expenses:						
Depreciation and amortization	1,324,968	289,966	38,737	224,890	411,815	2,344,176
All other	5,351,017	-	-	-	-	5,351,017
Tax revenues	-	17,743	-	164,488	471,366	593,397
Net income (loss)	2,962,966	(741,123)	(37,828)	(198,241)	(549,817)	1,695,599
Property, plant and equipment additions	601,284	-	-	-	-	601,284
Debt issued	477,264	-	-	-	-	477,264
Bonds payable:						
Payable from operating revenues	8,160,000	-	-	-	-	8,160,000
Payable from other sources	-	159,000	-	443,000	2,364,000	2,966,000
Operating income (loss)	1,975,967	(293,066)	(28,737)	(224,960)	(411,815)	994,211
Net working capital (deficiency)	580,765	(7,203)	77,421	(1,791)	(18,832)	630,260
Total assets	27,861,522	11,135,269	862,364	3,198,830	4,343,634	47,349,620
Contributed capital	9,044,349	5,776,753	-	1,381,894	1,576,346	18,779,692
Total fund equity	16,898,272	10,976,132	859,365	2,743,232	1,969,282	33,398,823

Note 11 - CONTINGENCIES

The Division is involved in various claims for alleged negligence. The exposure to the Division is estimated to be approximately \$56,772. The estimated claims liability is computed based on information received from the insurance company. The claims liability of \$56,772 at December 31, 1997 is presented at current value and has not been discounted.

Note 12 - SELF INSURANCE

The Division is self insured for hospitalization claims up to approximately \$20,000 per employee or an aggregate of approximately \$230,884 claims per year. The excess is insured under an insurance policy. The fund is administered by an independent insurance service company.

The estimated claims liability is computed based on information received from the administrator of the plan. The following represents a reconciliation of total claims liability:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Claims liability at beginning of year	\$ 40,587	\$ 41,624	\$ 40,846
Less claims paid during the year	(320,634)	(406,558)	(233,394)
Plus claims insured	<u>399,141</u>	<u>495,511</u>	<u>234,182</u>
Claims liability at end of year	<u>\$ 60,194</u>	<u>\$ 40,587</u>	<u>\$ 41,624</u>

The claims liability at December 31, 1997 is presented at current value and has not been discounted.

Effective February 1, 1997, the Division established a self-insurance fund for their workman's compensation, unemployment compensation, general and automobile liability. The division is self insured for claims up to \$250,000 per occurrence. They have an insurance policy for claims between \$250,000 and \$5,000,000 per occurrence. This policy has a 20% coinsurance clause with a maximum liability to the division of \$3,000,000. The fund is administered by a independent insurance service company.

Note 12 - SELF INSURANCE (Continued)

Estimated claims liability related to the current year's general liability, auto and workers compensation was determined by using the average annual claims expense incurred for each type of coverage.

The following represents a reconciliation of total claims liability:

Claims liability at January 1, 1997	\$ -
Claims paid during 1997	(83,332)
Plus provision for incurred claims	<u>86,851</u>
 Claims liability at December 31, 1997	 <u>\$ 22,224</u>

Note 13 - OPERATING TRANSFERS

An operating transfer of \$751,733 was made between the Water and Sewer Division and Water District No. 1, Sewer District No. 1 and Sewer District No. 2. The transfer was made for the Division's portion of 1996 ad valorem taxes and state revenue sharing for maintenance and operations which was collected during 1997.

Note 14 - COMPENSATION PAID TO COUNCIL MEMBERS

The Division did not pay any compensation to the members of the St. Bernard Parish Council.

Note 15 - GAIN ON DAMAGE SETTLEMENT

The St. Bernard Water and Sewer Division suffered substantial damage to its Mississippi River water intake crib, fender and pipe from battere to crib in two separate tow boat accidents during 1994. The Division has incurred \$372,262 in costs to repair the damaged structure. The Division has recovered \$264,135 from insurance proceeds and \$344,414 from lawsuit judgement proceeds. For the year ended December 31, 1997 a gain on damage settlements in the amount of \$136,287 was recorded as other operating revenues in the combined financial statements.

Note 16 - COMPENSATED ABSENCES

Employees earn two to five weeks of paid vacation each year, up to 90 days will be paid in cash at retirement or termination if proper notice is given. If proper notice is not given, up to 10 days may be subtracted from their accumulated vacation and the remainder is paid in cash. Employees earn 12 days of sick leave each year, which may accumulate to an unlimited number of days but does not vest. At December 31, 1997, the accrued vacation was \$258,062.

Note 17 - CUSTOMER DEPOSITS

The Division has used funds from Customer Meter Deposit cash account to pay operating expenses and capital improvements. At December 31, 1997 the customer meter cash account had a balance of \$150,896 and the customer meter deposits liability was \$1,088,654.

Note 18 - ADMINISTRATIVE ORDER

During 1996, the Division received an administrative order from the United States Environmental Protection Agency (EPA). The order stated that the Division has violated its National Pollutant Discharge Permit and the Clean Water Act. The EPA has allowed the division a reasonable period to take corrective action to eliminate and prevent recurrence of the noncompliant discharges cited in the findings or to submit a comprehensive plan to eliminate and prevent recurrence of violations cited in the findings.

The Division has filed a response to the deficiencies cited in the order. The Division can be assessed up to \$25,000 per day in penalties for noncompliance to the order. There have been no assessments by the EPA or penalties accrued in these financial statements.

Note 19 - FEDERAL INVESTIGATION

During 1997, the Division has come under investigation by a federal agency concerning its waste water disposal from its facilities. The investigation is in its initial stage. Presently, it is not possible to determine the effect of this investigation on the financial statements, if any.

SUPPLEMENTAL INFORMATION SECTION

COMBINED BALANCE SHEET

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Divisions
and the Districts**

December 31, 1997

ASSETS	Water and Sewer Division	Water District		Sewerage District		Total
		No. 1	No. 2	No. 1	No. 2	
Current						
Cash and cash equivalents	\$ 686,114	\$ -	\$ -	\$ -	\$ -	\$ 686,114
Customer receivables, net of allowance for doubtful accounts of \$44,845	338,037	-	-	-	-	338,037
Unbilled charges	78,121	-	-	-	-	78,121
Inventory	134,664	-	-	-	-	134,664
Prepaid expenses	15,122	-	-	-	-	15,122
Total current assets	1,352,058	-	-	-	-	1,352,058
Restricted Assets						
Cash and cash equivalents						
Borrower held debt service assets	1,154,687	-	-	-	-	1,154,687
Borrower held debt service amount	474,128	-	-	-	-	474,128
Borrower and replacement account	885,588	-	-	-	-	885,588
Other debt service accounts	-	101,269	28,769	78,121	806,497	1,014,656
Customer reserve deposits	150,894	-	-	-	-	150,894
Ad valorem taxes receivable	-	39,371	-	93,667	429,113	462,751
Total restricted assets	2,665,296	170,640	28,769	171,888	1,236,710	4,263,503
Property, Plant and Equipment, Net of Accumulated Depreciation	20,120,820	30,964,134	38,1633	2,995,037	2,212,608	54,480,788
Unamortized Debt Expense	211,294	-	-	16,489	78,076	315,859
Total assets	\$7,094,478	\$31,155,298	\$,690,766	\$3,008,404	\$4,534,494	\$47,583,440

	Water and Sewer Division	Water Utility		Sewerage Utility		Total
		No. 1	No. 2	No. 1	No. 2	
LIABILITIES						
Current						
Payable from current assets						
Accounts payable	\$ 232,296	\$ -	\$ -	\$ -	\$ -	\$ 232,296
Uninsured claims payable	56,733	-	-	-	-	56,733
Self-insurance claims payable	83,489	-	-	-	-	83,489
Lease payable	13,433	-	-	-	-	13,433
Salaries payable	87,588	-	-	-	-	87,588
Due to (from) other funds	49,413	2,000	(73,453)	1,800	85,433	-
Due to St. Bernard Parish	-	-	-	-	-	-
Self-Insurers Fund	303,236	-	-	-	-	303,236
Total current liabilities payable from current assets	1,065,691	2,000	(73,453)	1,800	85,433	1,255,471
Payable from restricted assets						
Bonds payable	693,888	152,000	-	68,888	231,888	1,245,664
Accrued interest payable	176,241	2,880	-	8,287	48,730	237,938
Customer deposits	1,688,634	-	-	-	-	1,688,634
Inspection deposits	23,300	-	-	-	-	23,300
Total current liabilities payable from restricted assets	1,972,063	154,880	-	77,175	280,618	2,584,536
Long-term liabilities:						
Accrued vacation leave	288,061	-	-	-	-	288,061
Bonds payable	7,843,000	-	-	383,888	3,833,000	9,059,888
Total long-term liabilities	8,131,061	-	-	383,888	3,833,000	12,348,949
Total liabilities	\$ 9,996,752	\$ 156,880	\$ (73,453)	\$ 465,498	\$ 3,413,433	\$ 13,960,700
Fund Equity						
Restricted Capital						
	\$ 644,346	\$ 278,700	-	\$ 283,884	\$ 276,146	\$ 1,283,076
Retained Earnings:						
Reserve:						
Capital approval and replacement	1,208,419	-	-	-	-	1,208,419
Contingency	1,622,258	-	-	-	-	1,622,258
Debt service (deficit)	(342,389)	-	-	-	-	(342,389)
Unreserved (deficit)	(628,889)	2,883,378	878,780	1,361,138	311,556	4,134,441
Total retained earnings	2,859,409	2,883,378	878,780	1,361,138	311,556	7,394,151
Total fund equity	\$ 4,503,755	\$ 2,883,378	\$ 878,780	\$ 2,743,132	\$ 5,999,142	\$ 13,994,851
Total liabilities and fund equity	\$ 14,500,507	\$ 11,130,258	\$ 865,361	\$ 4,198,630	\$ 9,412,575	\$ 27,955,650

COMBINED STATEMENT OF REVENUES AND EXPENSES

St. Rosemary Parish Government
Department of Public Works
Water and Sewer Division
And the Districts

For the year ended December 31, 1997

	Water and Sewer Division	Water Districts		Sewerage District		Total
		No. 1	No. 2	No. 1	No. 2	
Operating Revenues						
User fees	\$ 1,129,541	\$ -	\$ -	\$ -	\$ -	\$ 1,129,541
Other operating revenues	328,833	-	-	-	-	328,833
Total operating revenues	\$ 1,458,374	-	-	-	-	\$ 1,458,374
Operating Expenses						
Personal services and related benefits	2,719,388	-	-	-	-	2,719,388
Utilities	1,088,680	-	-	-	-	1,088,680
Contractual services, supplies, and materials	1,369,323	-	-	-	-	1,369,323
Professional services	158,548	-	-	-	-	158,548
Insurance and claims expense	82,889	-	-	-	-	82,889
Depreciation and amortization	1,114,900	295,966	38,737	279,868	411,613	2,541,174
Other	52,449	-	-	-	-	52,449
Total operating expenses	\$ 6,479,117	\$ 295,966	\$ 38,737	\$ 279,868	\$ 411,613	\$ 7,095,181
Operating Income (Loss)	\$ 1,979,257	\$ (295,966)	\$ (38,737)	\$ (279,868)	\$ (411,613)	\$ 864,711
Nonoperating Revenues (Expenses)						
And various fee for debt retirement	-	17,743	-	104,488	479,166	599,397
Interest earnings	-	-	-	-	-	(61,187)
Commodities	18,187	-	-	-	-	18,187
Other	97,325	7,389	809	5,866	14,357	124,686
Interest expense and bank fees	(458,656)	(18,848)	-	(28,899)	(158,911)	(656,314)
Deductions from ad valorem taxes for debt retirement	-	(615)	-	(7,971)	(14,627)	(13,213)
Total nonoperating revenues (expenses)	(373,144)	\$ 14,369	\$ 809	\$ 76,602	\$ 310,185	\$ 180,521
Income (Loss) before operating transfers	\$ 1,606,113	\$ (279,600)	\$ (37,928)	\$ (198,266)	\$ (79,428)	\$ 1,081,891
Operating Transfers In (Out)	731,133	\$ (661,455)	-	332	\$ (279,188)	-
Net Income (Loss)	\$ 2,337,246	\$ (941,055)	\$ (37,928)	\$ (197,934)	\$ (1,078,616)	\$ 1,081,891

**COMBINING STATEMENT OF CHANGES IN FUND EQUITY
(RETAINED EARNINGS AND CONTRIBUTED CAPITAL)**

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
And the Districts**

For the year ended December 31, 1987

	Water and Sewer Division	Water District		Sewerage District		Total
		No. 1	No. 2	No. 1	No. 2	
Contributed Capital						
Beginning of Year	\$ 9,176,880	\$ 3,878,000	\$ -	\$ 1,508,740	\$ 1,704,604	\$ 16,368,224
Other - donated items	477,804	-	-	-	-	477,804
Depreciation of assets purchased with contributed capital	(568,157)	(381,268)	-	(124,937)	(147,888)	(924,250)
Contributed Capital, End of Year	<u>8,986,527</u>	<u>3,496,732</u>	<u>-</u>	<u>1,383,803</u>	<u>1,556,716</u>	<u>15,423,778</u>
Retained Earnings						
Beginning of Year	4,089,068	7,833,240	913,613	1,404,850	534,585	15,628,356
Net income (loss)	3,083,548	(741,031)	(375,428)	(198,340)	(349,807)	1,689,542
Depreciation of assets purchased with contributed capital	386,207	304,268	-	124,937	147,888	963,300
Retained Earnings, End of Year	<u>7,558,823</u>	<u>7,396,477</u>	<u>538,185</u>	<u>1,331,447</u>	<u>332,666</u>	<u>17,667,608</u>
Total Fund Equity	\$ 16,545,350	\$ 11,893,209	\$ 836,370	\$ 2,715,250	\$ 1,889,382	\$ 33,199,859

COMBINED STATEMENT OF CASH FLOWS

St. Bernard Parish Government
Department of Public Works
Water and Sewer Divisions
And the Districts

For the year ended December 31, 1997

	Water and Sewer Divisions		Water District		Sewerage District		Total
	No. 1	No. 2	No. 1	No. 2	No. 1	No. 2	
Cash Flows From Operating Activities							
Operating income (loss)	\$ 1,051,981	\$ (281,868)	\$ 128,707		\$ (234,868)	\$ 411,412	\$ 944,732
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:							
Depreciation and amortization	1,024,868	281,868	38,707		234,868	411,412	1,844,732
Changes in current assets:							
Customer receivables	(21,522)	-	-		-	-	(21,522)
Billed charges	(288,028)	-	-		-	-	(288,028)
Inventory	(88,142)	-	-		-	-	(88,142)
Prepaid expenses	16,347	-	-		-	-	16,347
Other intangibles receivable	188,508	-	-		-	-	188,508
Changes (Increase) in liabilities:							
Accounts payable and accruals	(93,872)	-	-		-	-	(93,872)
Total adjustments	1,218,689	281,868	38,707		234,868	411,412	1,214,678
Net cash provided by operating activities	2,270,670						2,270,670
Cash Flows From Noncapital Financing Activities							
All other income—operations and maintenance	-	421,378	-		231,726	189,652	642,756
State interest sharing	-	14,088	-		-	19,818	34,906
Dividends on equity—cash balances (equity—financial)	11,021,813	-	-		-	-	11,021,813
Transfer (to) from other funds	780,721	(684,188)	-		1,388	(188,722)	
Loan from St. Bernard Parish Self Insurance Fund	700,000	-	-		-	-	700,000
Net cash provided by noncapital financing activities	272,234	721	-		1,388	4,838	278,083
Cash Flows From Capital Financing Activities							
All other income—debt retirement	-	178,838	-		99,881	188,178	366,917
Payments on capital loans	(17,888)	-	-		-	-	(17,888)
Interest paid on capital loans	(2,271)	-	-		-	-	(2,271)
Payments of capital assets	881,184	-	-		-	-	881,184
Principal paid on bonds	(878,888)	(111,998)	-		(88,888)	(111,888)	(1,091,664)
Interest paid on bonds	(181,028)	(111,112)	-		(17,778)	(181,890)	(369,998)
Net cash used by capital financing activities	11,700,074	18,721	-		5,215	47,718	(1,045,788)
Cash Flows From Investing Activities							
Impact on cash management activities	875,882	7,288	888		1,388	14,972	895,418
Net increase in Cash and Cash Equivalents	1,815,624	26,794	888		14,426	81,122	1,865,614
Cash and Cash Equivalents							
Beginning of year	1,111,921	725,779	11,888		15,881	211,242	1,967,711
End of year	\$ 2,927,545	\$ 752,573	\$ 20,776		\$ 30,307	\$ 292,364	\$ 3,733,265

SCHEDULE OF ANNUAL DEBT SERVICE REQUIREMENTS

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
And the Districts**

December 31, 1997

Years	Water and Sewer Division 1991 and 1994 Revenue Bonds		
	Principal	Interest	Total
1998	\$ 659,000	\$ 412,162	\$ 1,071,162
1999	725,000	381,998	1,106,998
2000	760,000	349,510	1,109,510
2001	790,000	314,360	1,104,360
2002	830,000	276,608	1,106,608
2003	875,000	236,165	1,111,165
2004	915,000	193,025	1,108,025
2005	965,000	148,975	1,113,975
2006	1,010,000	95,430	1,105,430
2007	105,000	41,650	146,650
2008	110,000	34,300	144,300
2009	120,000	26,600	146,600
2010	125,000	18,300	143,300
2011	135,000	9,450	144,450
Total debt service requirements	\$ 8,180,000	\$ 2,535,433	\$ 10,715,433

Water Districts Nos. 1 and 2 and Sewer Districts Nos. 1 and 2 Public Improvement Bonds			Total	Total	Total
Principal	Interest	Total	Principal	Interest	Total
\$ 346,000	\$ 169,678	\$ 515,678	\$ 1,241,000	\$ 581,849	\$ 1,822,849
401,000	141,300	542,300	1,126,000	523,298	1,649,298
406,000	116,485	522,485	1,166,000	465,695	1,631,695
411,000	90,954	501,954	1,291,000	485,314	1,606,314
423,000	64,410	487,410	1,255,000	341,818	1,596,818
423,000	36,998	461,998	1,300,000	273,163	1,573,163
180,000	17,245	197,245	1,695,000	298,276	1,993,276
170,000	5,653	175,653	1,175,000	151,628	1,326,628
-	-	-	1,000,000	95,430	1,105,430
-	-	-	105,000	41,650	146,650
-	-	-	110,000	34,300	144,300
-	-	-	120,000	28,600	148,600
-	-	-	125,000	18,200	143,200
-	-	-	135,000	9,450	144,450
<u>\$ 3,964,000</u>	<u>\$ 642,723</u>	<u>\$ 4,606,723</u>	<u>\$ 11,124,000</u>	<u>\$ 3,178,156</u>	<u>\$ 14,302,156</u>

**SCHEDULE OF COMPUTATION OF THE RATIO OF
NET REVENUES (EXCLUDING WATER AND SEWER DISTRICTS)
TO AVERAGE ANNUAL DEBT SERVICE**

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
And the Districts**

For the year ended December 31, 1987

Division operating revenues	\$ 8,649,504
Add nonoperating revenue - interest earned on other than construction loans	97,325
Total revenues available	8,747,229
Division operating expenses	6,675,917
Less depreciation and amortization	1,324,900
Total adjusted expenses	5,351,017
Net revenues	\$ 3,396,212
Average annual debt service requirement	\$ 1,107,080
Ratio of net revenues to average annual debt service requirement	3.07 %

SCHEDULE OF METERED CUSTOMERS

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division
And the Districts**

December 31, 1997

(Unaudited)

At December 31, 1997, the St. Bernard Parish Government Department of Public Works Water and Sewer Division had 23,949 metered customers.

SPECIAL REPORT OF CERTIFIED PUBLIC ACCOUNTANTS



Bourgeois Bennett

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

To the St. Bernard Parish Council,
Chalmette, Louisiana.

We have audited the combined financial statements of the St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts (the Division), as of and for the year ended December 31, 1997, and have issued our report thereon dated June 5, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Division's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 97-3 and 97-4.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Division's internal control over combined financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Division's combined financial statements and not to provide assurance

on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Division's ability to record, process, summarize, and report financial data consistent with the assertions of management in the combined financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-1 and 97-2.

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 combined 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 that none of the reportable conditions described above, is a material weakness.

This report is intended for the information of the Administration of St. Bernard Parish Government, the St. Bernard Parish Council, and the Legislative Auditor for the State of Louisiana. However, this report is a matter of public record, and its distribution is not limited.

Bourgeois Bennett, L.L.C.

Certified Public Accountants

New Orleans, La.,
June 3, 1998.

SCHEDULE OF FINDINGS

St. Bernard Parish Government Department of Public Works Water and Sewer Division And the Districts

For the year ended December 31, 1997

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

Noncompliance material to financial statements noted? yes ___ no

b) Federal Awards

St. Bernard Parish Government, Department of Public Works, Water and Sewer Division and the Districts did not receive federal awards during the year ended December 31, 1997.

Section II Financial Statement Findings

Internal Control

97-j) **Criteria** - The motor deposit payable general ledger account should be reconciled to the subsidiary ledger on a monthly basis.

Condition - Currently the Division does not prepare a reconciliation of the motor deposit general ledger control account and the subsidiary ledger.

Section II Financial Statement Findings (Continued)

97-1 (Continued)

Questioned Cost - None

Context - Not applicable.

Effect - At December 31, 1993, there is a difference between the general ledger control and subsidiary ledger account balances. The subsidiary ledger account balance exceeded the general ledger account balance in the amount of \$66,725.

Cause - Management oversight.

Recommendation - The Division should investigate and correct the difference between the meter deposit subsidiary and general ledger. Also, reconciliations should be prepared on a monthly basis.

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

97-2 Criteria - The accounts receivable general ledger account should be reconciled to the subsidiary ledger on a monthly basis.

Condition - Currently the Division does not record billings and collections to the accounts receivable general ledger account and no reconciliation is prepared on the accounts receivable general ledger account and the subsidiary ledger.

Questioned Cost - None

Context - Not applicable.

Effect - The accounts receivable general ledger account does not properly reflect the customers accounts receivable due.

Cause - Management oversight.

Recommendation - The Division should begin posting water and sewer billings and collections to the accounts receivable general ledger account. Also, the division should begin reconciling the accounts receivable general ledger account to the subsidiary ledger.

Section II Financial Statement Findings (Continued)

Internal Control (Continued)

97-2 (Continued)

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

Compliance

97-3 **Criteria -** The Division is required to make monthly deposits into the cash debt service sinking fund account on or before the 25th day of the month. The required monthly deposits for fiscal year 1977 was \$92,489.

Condition - The Division made three of the twelve deposits required by the bond indenture.

Questioned Cost - None

Context - Not applicable.

Effect - The Division is in violation of its bond covenant.

Cause - Scarce cash flow problems.

Recommendation - The deposits into the cash debt service sinking fund account should be made by the 25th day of the month for the required deposit amount.

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

97-4 **Criteria -** The bond indenture requires the division to deposit into the reserve and replacement account an amount equal to or greater than 5% of the prior month's operating expenditures for repairs and maintenance cost.

Condition - The Division failed to make three of the required twelve deposits during the year ended December 31, 1977. However, for the year more than 5% of the operating expenditures for repairs and maintenance were deposited into this account.

Questioned Cost - None

Section II Financial Statement Findings (Continued)

Compliance (Continued)

97-4 (Continued)

Context - Not applicable.

Effect - The Division is in violation of its bond covenant.

Cause - Serve cash flow problems.

Recommendation - The Division should make the required twelve monthly payments to the reserve and replacement account by the 25th day of each month.

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. Bernard Parish Government Department of Public Works Water and Sewer Division And the Districts

For the year ended December 31, 1997

Section I Internal Control and Compliance Material to the Combined Financial Statements

Internal Control

96-1 Recommendation - In order to avoid understating cash and accounts payable the Division should process invoices for payment when the funds are available.

Management's Response - Resolved.

Compliance

96-2 Recommendation - The deposits into the cash debt service sinking fund account should be made by the 15th day of the month at the required deposit amount.

Management's Response - Partially resolved, see finding 97-3.

96-3 Recommendation - Deposits into the reserve and replacement cash account should be made by the 25th day of the month in an amount equal to or greater than 5% of the prior month's operating expenditures.

Management's Response - Partially resolved, see finding 97-4.

96-4 Recommendation - The reserve and replacement cash account should be replenished in order to meet the \$100,000 minimum balance requirement.

Management's Response - Resolved.

Section I Internal Control and Compliance Material to the Combined Financial Statements (Continued)

Compliance (Continued)

- 96-5 Recommendation** - The Division should review the bond indenture ratio calculation and monitor the monthly operations to determine that the debt ratio of 1.25 is met.

Management's Response - Resolved.

Section II Internal Control and Compliance Material To Federal Awards

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts did not receive federal awards during the year ended December 31, 1996.

Section III Management Letter

- 96-6 Recommendation** - The Division should analyze the difference between the meter deposits general ledger account and the subsidiary ledger and correct the variance.

Management's Response - Unresolved, see finding 97-1.

- 96-7 Recommendation** - The Division should carefully review all types of supplies being purchased to determine if supplies are being purchased that exceed the \$10,000 limit. In addition, the Division should carefully review items being repaired to determine if the repair is an ongoing routine type of repair. If the repair is ongoing and routine by nature, then the public bid law requirements should be observed.

Management's Response - Resolved.

- 96-8 Recommendation** - The Division should fund the meter deposit cash account by an amount equal to the meter deposit liability.

Management's Response - Unresolved, see finding 97-6.

- 96-9 Recommendation** - The Division should review the inventory tracking procedures to determine if the changes can be made to the computer system to correct the subsidiary ledger reports.

Management's Response - Resolved.

MANAGEMENT'S CORRECTIVE ACTION PLAN

St. Bernard Parish Government Department of Public Works Water and Sewer Division And the Districts

For the year ended December 31, 1997

Section I Internal Control and Compliance Material to the Combined Financial Statements

Internal Control

- 97-1 **Recommendation** - The Division should investigate and correct the difference between the meter deposit subsidiary and general ledgers. Also, reconciliations should be prepared on a monthly basis.

Management's Corrective Action: The meter deposit subsidiary ledger has been reconciled with the general ledger as of June 1998. The meter deposits subledger will be reconciled monthly as part of the monthly financial statement presentation.

- 97-2 **Recommendation** - The Division should begin posting water and sewer billings and collections to the accounts receivable general ledger account. Also, the division should begin reconciling the accounts receivable general ledger account to the subsidiary ledger.

Management's Corrective Action: The accounts receivable subsidiary ledger has been reconciled with the general ledger as of June 1998. The account receivable subledger will be reconciled monthly as part of the monthly financial statement presentation.

Compliance

- 97-3 **Recommendation** - The deposits into the cash debt service sinking fund account should be made by the 25th of the month for the required deposit amount.

Section I Internal Control and Compliance Material to the Financial Statements (Continued)

Compliance (Continued)

Management's Corrective Action: During 1997, the Division had a severe cash flow problem and could not transfer funds into the debt service sinking fund as required by the bond covenant. In June 1997, a rate increase was approved and the cash flow for the Division improved. As of the writing of this response, all transfers have been made for 1998 in accordance with bond covenants and are expected to be made in future.

- 97-4 Recommendation -** The Division should make the reserve monthly payments to the reserve and replacement account by the 25th day of the month.

Management's Corrective Action: During 1997, the Division had a severe cash flow problem and could not transfer funds into the reserve and replacement account as required by the bond covenant. In June 1997, a rate increase was approved and the cash flow for the Division improved. As of the writing of this response, all transfers have been made for 1998 in accordance with bond covenants and are expected to be made in future.

Section II Internal Control and Compliance Material To Federal Awards

St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts did not receive federal awards during the year ended December 31, 1997.

Section III Management Letter

- 97-5 Recommendation -** There should be a formal documented review of the collateralization of cash accounts on a monthly basis.

Management's Corrective Action: As part of the monthly bank reconciliation, the collateralization is now being checked against the bank balances.

- 97-6 Recommendation -** The Division should implement a program to fund the meter deposit cash account to an amount equal to the meter deposit liability.

Management's Corrective Action: The administration agrees with this comment and is currently looking at several options to replenish the meter deposit account.

Collateralization

- 1) The Division is required to have collateral in excess of the insured current bank balances. Collateralization information is provided to the Division on a monthly basis, but there is no formal documented review of the collateralization to determine if it is adequate. We recommend that a formal documentation of the review of the collateralization be implemented by the Division.

Meter Deposit Cash Account

- 2) The Meter Deposit Cash Account of the Division is approximately 13% of the meter deposit liability at December 31, 1997. The Division should implement a program to fund the meter deposit cash account to equal the meter deposit liability.