

Tangipahoa Water District Tangipahoa Parish Council

Annual Financial Statements
December 31, 2003 and 2002

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 5.19.04

**Tangipahoa Water District
Tangipahoa Parish Council**

**Annual Financial Statements
December 31, 2003 and 2002**

**Tangipahoa Water District
Tangipahoa Parish Council**

**Annual Financial Statements
December 31, 2003 and 2002
With Supplemental Information Schedules**

TABLE OF CONTENTS

	Statement	Schedule	Page
Independent Auditor's Report			3
Management's Discussion and Analysis:			
Financial Highlights			6
Overview of Annual Financial Report			7
Financial Analysis			7
Condensed Balance Sheet			8
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			9
Budgetary Highlights			10
Other Significant Trends and Account Changes			12
Capital Assets			12
Long-Term Debt Activity			13
Future Economic Plans			14
Business-Type Financial Statements:			
Balance Sheet	A		16
Statement of Revenues, Expenses, and Changes in Net Assets	B		18
Statement of Cash Flows	C		20
Notes to the Financial Statements			22
Supplemental Information Schedules:			
Budgetary Comparison Schedule		1	37
Schedule of Compensation Paid Board Members		2	39
Schedule of Insurance		3	40
Schedule of Water Customers and Schedule of Water Rates		4	41
Schedule of Expenditures of Federal Awards		5	42
Other Independent Auditor's Reports and Schedule of Findings & Questioned Costs:			
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards			45
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133			48
Corrective Action Plan for Prior Year Audit Findings		6	51
Corrective Action Plan for Current Year Audit Findings		7	52
Schedule of Findings and Questioned Costs		8	56

Durnin & James

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION
HAMMOND, LA • AMITE, LA

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March 24, 2004

Independent Auditor's Report

Board of Commissioners
Tangipahoa Water District
Tangipahoa Parish Council

We have audited the accompanying financial statements of the business-type activities of the Tangipahoa Water District, Natalbany, Louisiana, a component unit of the Tangipahoa Parish Council, as of and for the year ended December 31, 2003, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Tangipahoa Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the business-type activities of the Tangipahoa Water District, Natalbany, Louisiana, a component unit of the Tangipahoa Parish Council, as of and for the year ended December 31, 2002 were audited by other auditors whose report dated March 6, 2003, expressed an unqualified opinion on those statements.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Tangipahoa Water District as of December 31, 2003, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2004, on our consideration of the Tangipahoa Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 6 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Tangipahoa Water District
Tangipahoa Parish Council

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Tangipahoa Water District. The supplemental information schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Tangipahoa Water District. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Durnin & James

Durnin & James, CPAs
(A Professional Corporation)

Management's Discussion and Analysis

**Tangipahoa Water District
Tangipahoa Parish Council**

Management's Discussion and Analysis

Introduction

Tangipahoa Water District is pleased to present its Annual Financial Report developed in compliance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments* (hereinafter referred to as GASB 34), and related standards. Although GASB 34 was not required to be implemented until the fiscal year ending December 31, 2003, management elected early implementation in the fiscal year ending December 31, 2001 to provide financial statement users a more detailed and comprehensive analysis of the financial performance of the District. Please read the following in conjunction with the District's financial statements and footnotes, which follow this section.

Financial Highlights

- Total assets for the year were \$20,266,672, at December 31, 2003, and exceeded liabilities in the amount of \$5,541,292 (i.e., net assets). Of the total net assets, \$282,324 was unrestricted and available to support short-term operations, with the balance invested in capital assets, net of related debt, or restricted for capital activity and debt service. Total net assets decreased by \$61,231 reflecting a \$467,688 decrease in unrestricted net assets as capital projects were completed and increases of \$176,527 and \$229,930 respectively for net assets invested in capital assets, net of related debt, and net assets restricted for capital activity and debt service.
- User fee revenues (water sales) for the fiscal year ending December 31, 2003 increased to \$2,012,009, representing an approximate 7.9 % increase from the total user fees of \$1,864,146 for the fiscal year ending December 31, 2002. One of the reasons for the increase was that at December 31, 2003, the total number of customers had increased by 835 from the prior fiscal year, although customers for the Phase 2 additions were not on line for the entire fiscal year..
- The District's operating expenses, consisting of those expenses resulting from the District's ongoing operations, other than interest income and interest expense, increased by \$155,358 (9.4% increase) as compared to the prior fiscal year, totaling \$1,803,914 for the fiscal year ended December 31, 2003. Of the total increase of \$155,538, the major components of the increase were \$39,020 in increased insurance costs, \$35,651 increase in wages, \$32,035 for the cost of capping the Vicaro Well, and a \$30,017 increase in depreciation expense.
- Interest income for the fiscal year ended December 31, 2003, totaled \$23,863, representing a decrease of \$121,263 from the prior fiscal year. The decrease in interest income is due primarily to decreased rates of return on the District's cash deposits, and a decrease in available cash as the Phase II project was nearing completion.
- Total long-term debt decreased from \$13,789,318 at December 31, 2002, to \$13,649,048 at December 31, 2003. The decrease is due primarily to the payment of principal on outstanding bonds.
- As a result of the demand for services, and long-range plans of the Tangipahoa Water District to improve operations of the District, water system improvements are being constructed for the Phase II Project (Bedico/Robert/Robertson Road Area). As of December 31, 2003, the District had expended \$4,050,417 for construction improvements for Phase II. During February 2003, the District obtained permanent financing, consisting of Water Revenue Bonds, Series 2002, not to exceed a total of \$3,820,000 for completion of this project and to meet long-range planning goals of the District. Construction for the Phase II project was substantially complete February 2004.

**Tangipahoa Water District
Tangipahoa Parish Council**

Management's Discussion and Analysis

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A presents an overview of management's examination and analysis of Tangipahoa Water District's financial condition and performance.

The financial statements report information on the District using full accrual accounting methods similar to those used in the private business sector. Financial statements include the Balance Sheet, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The Balance Sheet provides information about the nature and amount of the District's resources and obligations at year-end, and provides a basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets, accounts for the revenues and expenses for the fiscal year, and provides information on how net assets changed during the year. This statement measures the success of the District's operations in a format that can be used to determine if the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides information on the source of cash receipts, what the cash was used for, and the total change in cash for the reporting period.

The notes to the financial statements provide required disclosures essential to an understanding of the financial statements. The notes present information about the District's accounting policies, significant account balances and activities, commitments, contingencies, and subsequent events, if any. Supplementary information includes a comparative budget schedule, key information schedules on operation of the District, and schedules detailing audit findings and management response, as well as required reports for Single Audit disclosure.

Financial Analysis

The purpose of financial analysis is to help determine whether Tangipahoa Water District is better off as a result of the current year's activities. In this analysis, data from two of the basic financial statements, the Balance Sheet, and the Statement of Revenues, Expenses, and Changes in Net Assets, are presented below in condensed format. These statements report the net assets, the difference between assets and liabilities, and the change in net assets, which provides information for indicating the financial condition of the District. Following these statements is a separate schedule summarizing and analyzing budget changes for the current fiscal year.

**Tangipahoa Water District
Tangipahoa Parish Council**

Management's Discussion and Analysis

Condensed Balance Sheet

	December 31, 2003	December 31, 2002	Dollar Change	Percent Change
Current and Other Assets	\$ 1,713,959	\$ 2,996,438	\$ (1,282,479)	-42.80%
Capital Assets	18,552,713	17,286,644	1,266,069	7.32%
Total Assets	<u>\$ 20,266,672</u>	<u>\$ 20,283,082</u>	<u>\$ (16,410)</u>	-0.08%
Long-Term Debt Outstanding	\$ 13,649,048	\$ 13,789,318	\$ (140,270)	-1.02%
Other Liabilities	1,076,332	891,241	185,091	20.77%
Total Liabilities	<u>14,725,380</u>	<u>14,680,559</u>	<u>44,821</u>	0.31%
Invested in Capital Assets, Net of Related Debt	4,985,360	4,808,833	176,527	3.67%
Restricted for Capital Activity and Debt Service	273,608	43,678	229,930	526.42%
Unrestricted	282,324	750,012	(467,688)	-62.36%
Total Net Assets	<u>5,541,292</u>	<u>5,602,523</u>	<u>(61,231)</u>	-1.09%
Total Liabilities and Net Assets	<u>\$ 20,266,672</u>	<u>\$20,283,082</u>	<u>\$ (16,410)</u>	-0.08%

The change in "Total Assets" represents changes in two major categories of assets—"Current and Other Assets" and "Capital Assets", and represents primarily the use of cash received from Rural Utilities Service to fund Phase II (Bedico/Robert/Robertson Road Area) construction improvements. Cash for operations increased by \$151,663 at December 31, 2003, totaling \$401,146, whereas cash restricted by the board of commissioners for construction projects decreased by \$127,405, totaling \$83,866 at fiscal year end. The cash accumulated for operations was used to fund the interest payment of \$137,768 paid January 22, 2004, for the Phase II project. Other notable changes were a decrease of \$107,297 in amount due from other governments as funds were received from the Department of Environmental Quality to reimburse costs of the Bolivar project, and a decrease of \$70,161 in cash required for Rural Utilities Service (RUS) bond reserves, as a result of RUS authorized use of these funds for construction projects.

Of the total increase of \$1,266,069 in capital assets, the major increase was for construction costs for the Phase II (Bedico/Robert/Robertson Road area). A more detailed analysis of the changes in capital assets is included in a following section entitled "Capital Assets".

The decrease in long-term liabilities of \$140,270 is due primarily to payment of principal on existing water revenue bonds for the District, and the retirement of \$3,510,000 in bond anticipation notes to fund construction improvements for the Phase II (Bedico/Robert/Robertson Road area) project, net of proceeds received totaling \$3,493,259 for permanent financing for the Phase II project. Permanent financing consists of Water Revenue Bonds, Series 2002, not to exceed \$3,820,000. A more detailed analysis of the changes in long-term debt is included in a following section entitled "Long-Term Debt Activity". Other liabilities increased by \$185,091, due primarily to increases in meter deposit liability of \$48,351, and increases in construction payables, retainage, and accrued interest for the Phase II project.

Total net assets (total assets less total liabilities) decreased by \$16,410 for the fiscal year ending December 31, 2003. Net assets restricted for capital activity and debt service and net assets invested in capital assets, net of related debt, increased with a decrease of \$467,688 in unrestricted net assets as capital projects were completed.

**Tangipahoa Water District
Tangipahoa Parish Council**

Management's Discussion and Analysis

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31, 2003	Year Ended December 31, 2002	Dollar Change	Percent Change
Revenues:				
Operating Revenues	\$ 2,268,538	\$ 2,090,890	\$ 177,648	8.50%
Nonoperating Revenues	31,800	151,677	(119,877)	-79.03%
Total Revenues	2,300,338	2,242,567	57,771	2.58%
Expenses:				
Depreciation Expense	562,409	532,392	30,017	5.64%
Other Operating Expense	1,241,505	1,116,164	125,341	11.23%
Nonoperating Expense	557,655	530,110	27,545	5.20%
Total Expenses	2,361,569	2,178,666	182,903	8.40%
Income (Loss) Before Contributions	(61,231)	63,901	(125,132)	
Capital Contributions	-	108,500	(108,500)	
Changes in Net Assets	(61,231)	172,401	(233,632)	
Beginning Net Assets	5,602,523	5,430,122	172,401	
Ending Net Assets	\$ 5,541,292	\$ 5,602,523	\$ (61,231)	

While the Balance Sheet shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers to the nature and scope of these changes. The above table shows a decrease of \$61,231 in net assets for the fiscal year ending December 31, 2003.

The District's total revenues increased by \$177,648 due primarily to continued growth of the District, which added 835 customers for the current fiscal year. However nonoperating revenues, including interest income, decreased by \$119,877 due primarily to decreased rates of return on cash deposits, and a decrease in cash deposits as the Phase II construction was completed. Total operating expenses, other than for depreciation expense, increased by \$125,341, with the major components consisting of \$39,020 in increased insurance costs, \$35,651 increase in wages, and \$32,035 for the cost of capping the Vicaro Well. Depreciation and interest expense, included in the category of "Nonoperating Expense" will continue to increase as the Phase II (Bedico/Robert/Robertson Road) improvements are completed. Operating expenses are discussed in further detail in the following section entitled "Budgetary Highlights".

**Tangipahoa Water District
Tangipahoa Parish Council**

Management's Discussion and Analysis

One of the methods for viewing changes from year-to-year is to compare revenue and expense data calculated per customer. As noted in a following section, there were 9,418 customers at December 31, 2003, and 8,583 customers at December 31, 2002. This information is often used by lenders to calculate the water rates required to cover operating expenses and debt service requirements. The following table presents comparative data, computed as average monthly revenue or expenses, for the fiscal years ending December 31, 2003 and 2002:

Revenue and Expense Data Per Customer

	December 31, 2003	December 31, 2002	Increase (Decrease)
Water Sales	<u>17.80</u>	<u>18.10</u>	<u>(0.30)</u>
Operating Revenues	<u>20.07</u>	<u>20.30</u>	<u>(0.23)</u>
Total Revenues	<u>20.35</u>	<u>21.77</u>	<u>(1.42)</u>
Operating Expenses	<u>15.96</u>	<u>16.01</u>	<u>(0.05)</u>
Total Expenses	<u>20.87</u>	<u>21.15</u>	<u>(0.28)</u>

This data provides information on trends in revenue and expenses per customer, but should be reviewed over an extended period, and in particular as the Phase II project revenues are recorded for an entire fiscal year.

Budgetary Highlights

Tangipahoa Water District adopts an annual operating budget in accordance with requirements of the United States Department of Agriculture, Rural Utilities Service. This budget provides an estimate for the current fiscal year of the proposed expenditures and the revenues that will finance the operations of the District. The operating budget is adopted before the end of the prior fiscal year, and is amended by the Board of Commissioners after review of monthly budget-to-actual financial reports. A summary of the approved budget is presented below in a condensed format summarizing major revenue and expenditure categories, and is followed by analysis of significant variations between budget and actual amounts. Although not presented as a part of the basic financial statements, a more detailed schedule is also presented in "Schedule 1 - Budgetary Comparison Schedule", as supplementary information, following the footnotes to the financial statements.

**Tangipahoa Water District
Tangipahoa Parish Council**

Management's Discussion and Analysis

Budget vs. Actual - Fiscal Year Ended December 31, 2003

	Budget Year Ended December 31, 2003	Actual Year Ended December 31, 2003	Favorable (Unfavorable) Variance
Revenues:			
Operating	\$ 2,235,697	\$ 2,268,538	\$ 32,841
Nonoperating	32,363	31,800	(563)
Total Revenues	<u>2,268,060</u>	<u>2,300,338</u>	<u>32,278</u>
Operating Expenses:			
Chlorination	106,806	109,692	(2,886)
Contract Labor	70,958	74,443	(3,485)
Depreciation	593,000	562,409	30,591
Electricity	127,901	127,802	99
Insurance	120,011	142,335	(22,324)
Office & Computer Expense	45,654	44,261	1,393
Operating Costs - Trucks	44,362	45,224	(862)
Repairs & Maintenance	98,424	106,287	(7,863)
Wages & Benefits	460,543	461,731	(1,188)
Other Operating Expenses	127,545	129,730	(2,185)
Total Operating Expenses	<u>1,795,204</u>	<u>1,803,914</u>	<u>(8,710)</u>
Non-Operating Expenses:			
Interest Expense	560,000	518,161	41,839
Other Nonoperating Exp.	32,035	39,494	(7,459)
Total Nonoperating Exp.	<u>592,035</u>	<u>557,655</u>	<u>34,380</u>
Total Expenses	<u>2,387,239</u>	<u>2,361,569</u>	<u>25,670</u>
Income (Loss) Before Capital Contributions	<u>\$ (119,179)</u>	<u>\$ (61,231)</u>	<u>\$ 57,948</u>

Income Before Capital Contributions was above the projected budget balance primarily because the Phase II Project was not yet complete at December 31, 2003. Since the Phase II project was not yet complete, interest expense was capitalized and recorded as part of construction in progress (reflected as part of the capital asset), and since the project was not yet complete, depreciation expense was not recorded.

Operating expenses were above projected budget by \$8,710, with the major variation being operating revenues at \$32,841 above budget.

**Tangipahoa Water District
Tangipahoa Parish Council**

Management's Discussion and Analysis

Other Significant Trends and Account Changes

Included within this section is first a listing and analysis of general trends and operating data affecting the operation of the District. This is followed by an analysis of any significant account changes, not included within other sections of the Management's Discussion and Analysis.

General Operating Data

	December 31, 2003	December 31, 2002	Increase (Decrease)
Employees (Including Part-Time Employees)	17	15	2
Customers:			
Residential	9,090	8,240	850
Commercial	328	343	(15)
Total	9,418	8,583	835

Total employees increased by two as vacancies were filled, and total customers increased by 835. Total employees included two part-time workers.

Other Significant Account Changes and Financial Trends

One key measure of a District's profitability, and the ability to generate positive cash flows, is the ability of the water system to collect accounts receivable on a timely basis. Presented below is an aged receivable listing for the fiscal years ending December 31, 2003, and 2002.

	Year Ended December 31, 2003	Year Ended December 31, 2002	Increase (Decrease)
0 - 30 Days Past Due	\$ 96,288	\$ 84,402	\$ 11,886
31 - 60 Days Past Due	18,630	17,827	803
61 - 90 Days Past Due	5,786	3,481	2,305
Over 90 Days Past Due	973	-	973
Total Accounts Receivable for Water (Before Allowance for Bad Debts)	121,677	105,710	15,967
Sewer & Garbage Receivables	34,387	25,986	8,401
Total Accounts Receivable	\$ 156,064	\$ 131,696	\$ 24,368

Total receivables for the water District increased by \$24,368 from the period of December 31, 2002, to December 31, 2003, with the only significant increases including current receivables for Tangipahoa Water District (0-30 days) and receivables for entities for which Tangipahoa Water District provides a billing service.

Capital Assets

At the end of the fiscal year ending December 31, 2003, Tangipahoa Water District had \$18,552,713 recorded in capital assets. This includes water systems and improvements in the southern end of the parish, with a current expansion program in progress for the Bedico/Robert/Robertson Road area. The District also acquired and services the Fourth Ward and Second Ward water systems in the northern end of the parish. Other significant capital assets include the District's investment for the office building and storage for water system equipment and supplies, land owned for the office building site and for water well locations, and equipment and machinery, including vehicles, for water system operation. The changes in capital assets are presented in the table below.

**Tangipahoa Water District
Tangipahoa Parish Council**

Management's Discussion and Analysis

	December 31, 2003	December 31, 2002	Dollar Change	Percent Change
Land	\$ 176,502	\$ 176,502	\$ -	0.00%
Building	380,927	212,862	168,065	78.95%
Equipment	722,223	661,088	61,135	9.25%
Furniture and Fixtures	11,612	10,953	659	6.02%
Water Distribution System	17,741,535	17,558,125	183,410	1.04%
Construction in Progress	4,050,417	2,643,941	1,406,476	53.20%
Subtotal	<u>23,083,216</u>	<u>21,263,471</u>	<u>1,819,745</u>	8.56%
Less: Accumulated				
Depreciation	4,530,503	3,976,827	553,676	13.92%
Net Capital Assets	<u>\$ 18,552,713</u>	<u>\$ 17,286,644</u>	<u>\$ 1,266,069</u>	7.32%

In the building category, the Office Annex was completed at a total cost of \$150,883, with the balance consisting of costs for a metal shed addition, and office and shed improvements. For the equipment category, the major increases were for \$23,557 for two trucks, \$23,333 for office equipment including an \$8,000 cost of upgrading billing software. Construction in progress increases at December 31, 2003 were for the Phase II (Bedico/Robert/Robertson Road) project, with construction completed February 2004. Permanent financing for the Phase II project was secured, as noted in "Footnote 14 - Subsequent Events", consisting of \$3,820,000 in water revenue bonds.

Long-Term Debt Activity

The primary source of long-term financing for Tangipahoa Water District water system improvements is revenue bonds financed by the United States Department of Agriculture, Rural Utilities Service (RUS). Interim financing, pending completion of construction, is generally financed by private financial institutions, or through low-interest programs of the Louisiana Public Facilities Authority. Interest rates for long-term debt financed through RUS at December 31, 2003, range from 4.75% to 5.5%, with initial payment terms for bonds generally at 40 years.

Long-term debt at December 31, 2003 listed in the table below also includes water revenue bonds (Series 2002), not to exceed \$3,820,000 for the Phase II (Bedico/Robert/Robertson Road) project, although at December 31, 2003, the District had only received \$3,493,259 of bond proceeds, since the Phase II project was not completed until February, 2004.

Bonds financed for Tangipahoa Water District do not generally require a specific debt to net income or net cash flow ratio, but bond restrictions do state that the District must set its water rates at a level necessary to fund debt service requirements and to pay for the normal operating expenses of the District. One measure of the operating performance of the District is the Debt to Net Assets ratio. This measure, viewed over time, yields a comparison of how the District has maintained a workable ratio of total debt to net resources of the District. An increase over an extended period of time would indicate that the District is increasing debt in relation to its operating performance, and management should analyze other factors, such as overall profitability, to ensure that total debt is increased only in relation to the income that will be earned by financed expansions. Two variations of the Debt to Assets Ratio, Total Debt to Net Assets and also Total Long-Term Debt to Net Assets, are presented below. As indicated, the ratios are only a measure of performance and should be reviewed over an extended period of time in combination with other factors that indicate the profitability of the water district.

**Tangipahoa Water District
Tangipahoa Parish Council**

Management's Discussion and Analysis

	December 31, 2003	December 31, 2002
Total Debt	\$ 13,649,048	\$ 13,789,318
Total Long-Term Debt	13,485,241	13,665,810
Total Net Assets	5,541,292	5,602,523
Total Debt to Net Assets Ratio	2.46	2.46
Total Long-Term Debt to Net Assets Ratio	2.43	2.44

Future Economic Plans

At fiscal year end, the District had incurred \$4,050,417 in construction costs for the Phase II (Bedico/Robert/Robertson Road) project serving the southeastern part of Tangipahoa Parish, including parts of Ward 8. This project was substantially complete at February, 2004.

An additional project award of \$740,438 by the Louisiana Community Development Block Grant Program (LCDBG) to the Tangipahoa Parish Council will provide for expansion of water lines in the Robert area. Upon completion of this project, this expansion will be transferred to Tangipahoa Water District for continued maintenance and operation.

In an effort to meet the needs of existing customers and to respond to the demands of a growing community, the Board of Commissioners of Tangipahoa Water District created a "Long-Range Committee" to identify and prioritize those areas for which construction projects would benefit residents of Tangipahoa Parish. The committee meets periodically with the system engineer to formalize these plans, and to review cost estimates.

Financial Statements

**Tangipahoa Water District
Tangipahoa Parish Council**

Statement A

**Balance Sheet
December 31, 2003 and 2002**

Assets	<u>2003</u>	<u>2002</u>
Current Assets:		
Cash - Operating	\$ 401,146	\$ 249,483
Cash - Capital Improvements	83,866	211,271
Accounts Receivable (Net)	150,193	121,834
Accrued Billings	98,663	95,423
Due From Other Governments	2,614	109,911
Prepaid Expenses	33,119	25,234
Inventory	52,603	51,974
Total Current Assets	<u>822,204</u>	<u>865,130</u>
Restricted Assets:		
Cash - Customer Deposits	373,283	323,673
Cash - RUS Bond Depreciation and Contingency	250,354	238,126
Cash - RUS Bond Reserve	144,555	214,716
Cash - Phase II Improvements	81,697	1,311,508
Total Restricted Assets	<u>849,889</u>	<u>2,088,023</u>
Capital Assets:		
Land	176,502	176,502
Plant and Equipment	18,856,297	18,443,028
Construction in Progress	4,050,417	2,643,941
Total Capital Assets	<u>23,083,216</u>	<u>21,263,471</u>
Less: Accumulated Depreciation	(4,530,503)	(3,976,827)
Net Capital Assets	<u>18,552,713</u>	<u>17,286,644</u>
Other Assets:		
Utility Deposits	705	705
Bond Issue Cost	41,161	42,580
Total Other Assets	<u>41,866</u>	<u>43,285</u>
Total Assets	<u>\$ 20,266,672</u>	<u>\$ 20,283,082</u>

(Continued)

The accompanying notes are an integral part of these statements.

**Tangipahoa Water District
Tangipahoa Parish Council**

Statement A

**Balance Sheet
December 31, 2003 and 2002**

Liabilities and Net Assets	<u>2003</u>	<u>2002</u>
Liabilities:		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	\$ 47,562	\$ 45,594
Sales Tax Payable	873	5,350
Accrued Wages	11,685	4,332
Accrued Vacation Time	31,100	29,689
Payroll Tax Payable	850	900
Due to Other Governments	80,403	70,675
Total Current Liabilities (Payable From Current Assets)	<u>172,473</u>	<u>156,540</u>
Current Liabilities (Payable From Restricted Assets):		
Accrued Interest Payable - RUS Bonds	4,228	3,930
Construction Interest Payable	125,708	114,263
Construction Accounts Payable	144,459	91,591
Retainage Payable	138,638	82,442
Customer Deposits Payable	490,826	442,475
Current Portion of RUS Bonds	163,807	123,508
Total Current Liabilities (Payable From Restricted Assets)	<u>1,067,666</u>	<u>858,209</u>
Long-Term Liabilities:		
Bonds Payable - Original System	2,860,123	2,906,569
Bonds Payable - Pumpkin Center #1	2,534,345	2,567,251
Bonds Payable - Pumpkin Center #2	119,170	120,893
Bonds Payable - Ponchatoula East #1	2,768,322	2,799,581
Bonds Payable - Ponchatoula East #2	286,377	289,611
Bonds Payable - Phase I Series 2001	1,457,470	1,471,905
Bonds Payable - Phase II Series 2002	3,459,434	3,510,000
Total Long-Term Liabilities	<u>13,485,241</u>	<u>13,665,810</u>
Total Liabilities	<u>14,725,380</u>	<u>14,680,559</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	4,985,360	4,808,833
Restricted for Capital Activity and Debt Service	273,608	43,678
Unrestricted	282,324	750,012
Total Net Assets	<u>5,541,292</u>	<u>5,602,523</u>
Total Liabilities and Net Assets	<u>\$ 20,266,672</u>	<u>\$ 20,283,082</u>

(Concluded)

The accompanying notes are an integral part of these statements.

**Tangipahoa Water District
Tangipahoa Parish Council**

Statement B

**Statement of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31, 2003 and 2002**

Operating Revenues	<u>2003</u>	<u>2002</u>
Water Sales	\$ 2,012,009	\$ 1,864,146
Penalties	44,458	41,442
Service Connection and Installation Fees	152,576	121,749
Reconnect Charges	31,250	35,925
Billing Fees	16,822	15,741
DHH Fee Allowance	2,864	2,650
Miscellaneous	8,559	9,237
Total Operating Revenues	<u>2,268,538</u>	<u>2,090,890</u>
Operating Expenses		
Accounting Fees	11,691	5,810
Amortization of Bond Issue Costs	1,419	1,419
Annual Audit Fee	8,500	15,000
Bad Debt Expense	1,155	9,382
Bank Charges	1,016	991
Chlorination	109,692	91,429
Computer Expense	7,268	7,304
Contract Labor	74,443	72,070
Depreciation	562,409	532,392
Director's Fees	17,900	16,200
Dues and Subscriptions	488	452
Educational Expense	604	1,308
Electricity Purchased	127,802	109,275
Employee Uniforms	5,684	7,487
Equipment Maintenance	10,089	9,758
Equipment Rental	4,896	8,887
Insurance	142,335	103,315
Legal Fees	11,659	18,672
Minute Clerk Fees	3,900	3,600
Miscellaneous	1,429	848
Office Expense	13,624	10,050
Office Supplies	23,369	18,393
Official Journal	3,155	2,160
Operating Costs - Trucks	45,224	42,593
Payroll Taxes	29,163	27,559
Postage and Box Rent	35,956	27,870
Professional Fees	1,653	413

(Continued)

The accompanying notes are an integral part of these statements.

**Tangipahoa Water District
Tangipahoa Parish Council**

Statement B

**Statement of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
Repairs, Maintenance and Supplies	\$ 68,275	\$ 54,561
Retirement Contributions	14,039	13,925
Telephone	11,044	11,599
Utilities	7,581	7,344
Wages and Salaries	418,529	382,968
Water Well Maintenance and Supplies	27,923	33,522
Total Operating Expenses	<u>1,803,914</u>	<u>1,648,556</u>
Operating Income (Loss)	<u>464,624</u>	<u>442,334</u>
Nonoperating Revenues (Expenses)		
Interest Income	23,863	145,126
Recovery of Bad Debts	1,401	1,212
Sale of Fixed Assets	6,536	5,339
Loss on Disposal of Fixed Assets	(6,566)	(6,602)
Lightning Damage Loss	(893)	-
Cost of Capping Well	(32,035)	-
Interest Expense	(518,161)	(523,508)
Total Nonoperating Revenues (Expenses)	<u>(525,855)</u>	<u>(378,433)</u>
Income (Loss) Before Contributions	(61,231)	63,901
Capital Contributions	-	108,500
Change in Net Assets	(61,231)	172,401
Net Assets, Beginning of Year	5,602,523	5,430,122
Net Assets, End of Year	<u>\$ 5,541,292</u>	<u>\$ 5,602,523</u>

(Concluded)

The accompanying notes are an integral part of these statements.

**Tangipahoa Water District
Tangipahoa Parish Council**

Statement C

**Statement of Cash Flows
Years Ended December 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
Cash Flows From Operating Activities		
Received From Customers	\$ 2,236,939	\$ 2,084,924
Received (Paid) for Meter Deposit Fees	48,351	56,035
Received (Paid) to Other Governments	117,025	(79,857)
Paid for Operations	(771,478)	(697,444)
Paid to Employees	(470,917)	(435,847)
Net Cash Flows From Operating Activities	<u>1,159,920</u>	<u>927,811</u>
Cash Flows From Noncapital Financing Activities		
Recovery of Bad Debts	1,401	1,212
Sale of Fixed Assets	6,536	5,339
Lightning Damage	(893)	-
Net Cash Flows From Noncapital Financing Activities	<u>7,044</u>	<u>6,551</u>
Cash Flows From Capital and Related Financing Activities		
Payment of Bond Anticipation Notes	(3,510,000)	-
Proceeds From Issuance of Revenue Bonds	3,493,259	-
Capital Contributions Received	-	108,500
Paid for Capital Acquisitions	(1,758,015)	(2,741,269)
Principal Payments - Long-Term Debt	(123,528)	(108,581)
Interest Payments - Long-Term Debt	(506,419)	(433,812)
Net Cash Flows From Capital and Related Financing Activities	<u>(2,404,703)</u>	<u>(3,175,162)</u>
Cash Flows From Investing Activities		
Receipt of Interest and Dividends	23,863	145,126
Net Cash Flows From Investment Activities	<u>23,863</u>	<u>145,126</u>
Net Change in Cash and Cash Equivalents	(1,213,876)	(2,095,674)
Cash and Cash Equivalents - Beginning of Year	2,548,777	4,644,451
Cash and Cash Equivalents - End of Year	<u>\$ 1,334,901</u>	<u>\$ 2,548,777</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:		
Cash	\$ 485,012	\$ 460,754
Restricted Assets - Cash	849,889	2,088,023
	<u>\$ 1,334,901</u>	<u>\$ 2,548,777</u>

(Continued)

The accompanying notes are an integral part of these statements.

**Tangipahoa Water District
Tangipahoa Parish Council**

Statement C

**Statement of Cash Flows
Years Ended December 31, 2003 and 2002**

Reconciliation of Operating Income to Net Cash Flows From Operating Activities

Operating Income (Loss)	\$ 464,624	\$ 442,334
Adjustments to Reconcile Operating Income to Net Cash		
Flows From Operating Activities:		
Depreciation Expense	562,409	532,392
Changes in Assets and Liabilities:		
Change in Accounts Receivable	(28,359)	21,047
Change in Unbilled Receivables	(3,240)	(2,205)
Change in Prepaids	(7,885)	(8,829)
Change in Due From Governments	117,025	(95,598)
Change in Inventory	(629)	100
Change in Bond Issue Cost	1,419	1,419
Change in Accounts Payable	1,968	(7,317)
Change in Sales Tax Payable	(4,477)	(484)
Change in Accrued Wages	7,353	(8,187)
Change in Accrued Vacation	1,411	(1,041)
Change in Payroll Taxes Payable	(50)	(1,855)
Change in Customer Deposits Payable	48,351	56,035
Net Cash Flows From Operating Activities	\$ 1,159,920	\$ 927,811

(Concluded)

The accompanying notes are an integral part of these statements.

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

Introduction

On August 5, 1992, the Tangipahoa Parish Council voted to create a parish wide water district effective November 16, 1992, in accordance with *Louisiana Revised Statute 33:3811*, thus creating the Tangipahoa Water District. The purpose of the Tangipahoa Water District was to consolidate Second Ward Water District, Fourth Ward Water District and Water Works District Number 2, which were active water districts. The Tangipahoa Water District is governed by a board of commissioners consisting of seven members. The board is appointed by the parish council and paid according to the number of meetings attended. The Tangipahoa Water District encompasses all non-incorporated areas, with a few exclusions for some previously franchised areas of Tangipahoa Parish. At December 31, 2003, Tangipahoa Water District provided service to a total of 9,418 customers.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Tangipahoa Water District is considered a component unit of the Tangipahoa Parish Council.

1. Summary of Significant Accounting Policies

A. Measurement Focus and Basis of Accounting and Financial Statement Presentation

The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principle Board (APB) of the Committee On Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict or contradict with GASB pronouncements.

These financial statements are presented in conformance with GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*. Statement No. 34 established standards for financial reporting, with presentation requirements including a statement of net assets (or balance sheet), a statement of activities and changes in net assets, and a statement of cash flows. The District has also adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, that require capital contributions to the District be presented as a change in net assets.

All activities of the District are accounted for in a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing authority is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

The term measurement focus denotes what is being measured and reported in the District's operating statement. Financial operations of the District are accounted for on the flow of economic resources measurement focus. With this measurement focus, all of the assets and liabilities, available to the District for the purpose of providing goods and services to the public, are included on the balance sheet. The activity statement includes all costs of providing goods and services during the period.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations, primarily the provision of water to rural areas of Tangipahoa Parish. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the entity's policy to use restricted resources first, then unrestricted resources as they are needed.

B. Cash and Cash Equivalents

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law, or any other state of the United States, or under the laws of the United States.

C. Investments

Investments are limited by Louisiana RS 33:2955 and the District's investment policy. If the original maturities of investments exceed ninety days, they are classified as investments; however, if the original maturities are ninety days or less, they are classified as cash equivalents.

The District periodically maintains investments in the Louisiana Asset Management Pool (LAMP), a non-profit corporation formed by an initiative of the state treasurer and organized under the laws of Louisiana to operate as a local government investment pool. LAMP invests its assets only in securities and other obligations permissible under Louisiana law for local governments. At December 31, 2003, the District did not have deposits with LAMP.

LAMP is an external investment pool that is not registered with the SEC as an investment company, but nevertheless operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB-31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires the reporting of investment positions in 2a7-like pools (such as LAMP) be based on the pool's share price.

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

D. Inventories

Inventories consist of materials and supplies and are recorded as an expense when consumed. Inventories are valued at cost using the first-in, first-out method.

E. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items. Prepaid items consist of prepaid insurance premiums.

F. Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants.

G. Capital Assets

Capital assets of the District are defined by the District as assets with an initial, individual cost of more than \$500, and an estimated useful life in excess of one year. Capital assets are recorded at either historical cost or estimated historical cost. Donated assets, including water systems donated for continued maintenance by the District, are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings	15 - 30 years
Equipment & Furniture	5 - 7 years
Water System	20 - 50 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

H. Compensated Absences

The District has the following vacation and sick leave policy:

Employees earn five days of paid vacation after working full-time for one year, ten days of paid vacation after working full-time for three years, and fifteen days of paid vacation after working full-time for ten years. Employees are not allowed to accumulate vacation leave, unless there is a business need. Overtime can be earned from the first day of employment.

GASB Statement No. 16 provides that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

GASB Statement No. 16 provides that a liability for sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals. Accordingly, the District has not accrued liability for sick leave.

I. Long-term Liabilities

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

J. Net Assets

GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, requires classification of net assets, the difference between the District's assets and liabilities, into three components, as described below:

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

K. Use of Estimates

The preparation of financial statements in conformance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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 reported period. Actual results could differ from those estimates.

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

2. Cash and Cash Equivalents

At December 31, 2003, and 2002, the District had cash and cash equivalents (book balances), as follows:

	December 31, 2003	December 31, 2002
Interest-Bearing Demand Deposits	\$ 1,334,901	\$ 2,548,777
Total Cash and Cash Equivalents	\$ 1,334,901	\$ 2,548,777

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 pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2003, the District had \$1,334,693 in interest bearing demand deposits (collected bank balances). The total of \$1,334,693 was secured by \$100,000 of federal deposit insurance and \$1,234,693 of securities held by the custodial bank in the name of the fiscal agent bank (*GASB Category 3*).

At December 31, 2002, the District had \$2,567,919 in interest bearing demand deposits (collected bank balances). The total of \$2,567,919 was secured by \$100,000 of federal deposit insurance and \$2,467,919 of securities held by the custodial bank in the name of the fiscal agent bank (*GASB Category 3*).

Even though the pledged securities are considered uncollateralized (*Category 3*) 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 District that the fiscal agent has failed to pay deposited funds upon demand.

3. Receivables

The following is a summary of receivables for water for Tangipahoa Water District at December 31, 2003, and 2002:

	2003	2002
Current	\$ 116,034	\$ 103,654
31 - 60 Past Due	21,937	21,608
61 - 90 Past Due	6,793	4,499
Over 90 Past Due	11,300	1,935
Total	156,064	131,696
Less: Allowance for Uncollectible Accounts	(5,871)	(9,862)
Net Accounts Receivable	\$ 150,193	\$ 121,834

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

All customer receivables are reported at gross value and reduced by the portion that is expected to be uncollectible. The Board of Commissioners of Tangipahoa Water District established a monthly allowance for uncollectible accounts, based on .75% of gross water sales, the amount based on past experience in customer collections. Periodically, the Board reviews the aging of receivables and determines the actual amounts uncollectible. Per board approval, uncollectible amounts are written off against accounts receivable, and the allowance for doubtful accounts is adjusted to a reasonable estimate of uncollectibility. For the fiscal year ending December 31, 2003, the District had recorded \$1,155 in bad debt expense, as compared to \$9,382 bad debt expense for the fiscal year ended December 31, 2002.

Tangipahoa Water District, per ordinances enacted by the Tangipahoa Parish Council, is obligated to provide billing services for Sewerage District No. 1 of Tangipahoa Parish, and also provides billings services for the City of Hammond. The amount included in accounts receivable for Tangipahoa Water District, attributable to other entities for which Tangipahoa Water District provides a billing service, is as follows as of December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Current	\$ 19,746	\$ 19,253
31 - 60 Past Due	3,307	3,781
61 - 90 Past Due	1,008	818
Over 90 Past Due	10,326	2,134
Total Accounts Receivable - Other Entities	<u>\$ 34,387</u>	<u>\$ 25,986</u>

Estimated unbilled revenues are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. Accrued billings at December 31, 2003, totaled \$98,663, and \$95,423 at December 31, 2002.

Other receivables include \$2,614 due from local governmental entities for which the District provides a billing service.

4. Restricted Assets

At December 31, 2003 and 2002, the District had restricted assets as follows:

	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Cash-Customer Deposits	\$ 373,283	\$ 323,673
Cash-RUS Depreciation and Contingency	250,354	238,126
Cash-RUS Bond Reserve	144,555	214,716
Cash-Phase II Improvements	81,697	1,311,508
Total Restricted Assets	<u>\$ 849,889</u>	<u>\$ 2,088,023</u>

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

5. Capital Assets

A summary of changes in capital assets during the fiscal year ending December 31, 2003 is as follows:

	Balance December 31, 2002	Additions and Reclassifications	Deletions and Reclassifications	Balance December 31, 2003
Land	\$ 176,502	\$ -	\$ -	\$ 176,502
Building	212,862	168,065	-	380,927
Equipment	661,088	61,135	-	722,223
Furniture and Fixtures	10,953	659	-	11,612
Water Distribution System	<u>17,558,125</u>	<u>198,710</u>	<u>(15,300)</u>	<u>17,741,535</u>
Property, Plant, and Equipment in Service	18,619,530	428,569	(15,300)	19,032,799
Construction in Progress	<u>2,643,941</u>	<u>1,406,476</u>	<u>-</u>	<u>4,050,417</u>
Total Property, Plant, and Equipment	21,263,471	1,835,045	(15,300)	23,083,216
Less: Accumulated Depreciation	<u>(3,976,827)</u>	<u>(562,409)</u>	<u>8,733</u>	<u>(4,530,503)</u>
Net Property, Plant, and Equipment	<u>\$ 17,286,644</u>	<u>\$ 1,272,636</u>	<u>\$ (6,567)</u>	<u>\$ 18,552,713</u>

In the above schedule a total of \$4,050,417 was recorded for construction in progress for the Phase II (Bedico/Robert/Robertson Road) project. Total construction costs include \$135,525 recorded for interest costs incurred during construction.

Equipment, furniture and fixtures are depreciated using useful lives of 5 to 10 years, and the water distribution system uses a useful life of 30 to 50 years. All assets are depreciated under the straight-line method. Depreciation expense for the fiscal year ending December 31, 2003 totaled \$562,409.

6. Compensated Absences

At December 31, 2003, employees of Tangipahoa Water District have accumulated and vested \$42,785 of employee leave benefits, consisting of \$11,685 in accrued wages and \$31,100 in accrued vacation leave, computed in accordance with GASB Codification Section C60.

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

7. Retirement Program

On January 27, 1994, the Board of Commissioners of the Tangipahoa Water District, adopted the *Louisiana Public Employees Deferred Compensation Plan*, with the provision that Tangipahoa Water District, the employer, will match employee contributions, up to 5% of gross wages. The contribution by the employer will be re-established by the Board of Commissioners before the beginning of each fiscal year. Under the terms of the State of Louisiana Public Employees Deferred Compensation Plan, an employee may contribute up to a maximum of 25% of adjusted gross income, not to exceed \$8,000 per calendar year. A special "catch-up" provision may be used to save up to \$15,000 per year for the three years prior to retirement.

As reported by the State of Louisiana Deferred Compensation Program, for fiscal year ending December 31, 2003, the aggregate account balance of employees' of Tangipahoa Water District participating in the plan was \$220,593, as compared to \$172,924 for the fiscal year ending December 31, 2002.

8. Long-Term Liabilities

The following is a summary of the long-term liability transactions during the year:

<u>Description</u>	<u>Long-Term Liabilities Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Long-Term Liabilities End of Year</u>	<u>Due Within One Year</u>
1992 Water Revenue Bonds	\$ 2,950,528	\$ -	\$ (43,967)	\$ 2,906,561	\$ 46,439
1995 Water Revenue Bonds Series 1995	2,598,511	-	(31,265)	2,567,246	32,901
1995 Water Revenue Bonds Series 1995-A	122,527	-	(1,634)	120,893	1,722
1999 Water Revenue Bonds Series 1999	2,829,389	-	(29,812)	2,799,577	31,255
1999 Water Revenue Bonds Series 1999-A	292,695	-	(3,084)	289,611	3,233
2001 Water Revenue Bonds, Series 2001	1,485,668	-	(13,766)	1,471,902	14,432
2002 Water Revenue Bonds, Series 2002	-	3,493,258	-	3,493,258	33,825
2001 Anticipation Notes - Phase II Improvements	3,510,000	-	(3,510,000)	-	-
Total	<u>\$ 13,789,318</u>	<u>\$ 3,493,258</u>	<u>\$ (3,633,528)</u>	<u>\$ 13,649,048</u>	<u>\$ 163,807</u>

Bonds Payable at December 31, 2003 and 2002 comprise the following individual issues:

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Water System Revenue Bonds - RUS Bonds 91-01: \$3,313,000 revenue bonds sold to Rural Utility Service, dated 12/28/92, due in monthly installments of \$17,095 through 12/28/32; interest at 5.5%	\$ 2,906,561	\$ 2,950,528
Water System Revenue Bonds - RUS Bonds 91-02: \$2,756,000 revenue bonds sold to Rural Utility Service, dated 12/28/95, due in monthly installments of \$13,642.20 through 12/28/35; interest at 5.125%	2,567,246	2,598,511
Water System Revenue Bonds - RUS Bonds 91-03: \$133,000 revenue bonds sold to Rural Utility Service, dated 12/28/95, due in monthly installments of \$668.99 through 12/28/35; interest at 5.25%	120,893	122,527
Water System Revenue Bonds - RUS Bonds 91-04: \$2,900,000 revenue bonds sold to Rural Utility Service, dated 6/10/99, due in monthly installments of \$13,630 through 5/28/39; interest at 4.75%	2,799,577	2,829,389
Water System Revenue Bonds - RUS Bonds 91-05: \$300,000 revenue bonds sold to Rural Utility Service, dated 6/10/99, due in monthly installments of \$1,410 through 5/28/39; interest at 4.75%	289,611	292,695
Water System Revenue Bonds - RUS Bonds 91-06: \$1,490,000 revenue bonds sold to Rural Utility Service, dated 11/08/01, due in monthly installments of \$7,003 through 10/28/41; interest at 4.75%	1,471,902	1,485,668
Water System Revenue Bonds - RUS Bonds 91-07: \$3,820,000 authorized; revenue bonds sold to Rural Utility Service, dated 02/05/03, due in monthly installments of \$17,343 through 01/28/43; interest at 4.5%	3,493,258	-
Bond Anticipation Notes dated 11/08/01, consisting of two fully registered notes, in the principal amount of \$2,983,000, bearing interest at the rate of 3.35% annum, and a second note in the principal amount of \$527,000, being non-interest bearing	-	3,510,000
Total Bonds Payable	<u><u>\$ 13,649,048</u></u>	<u><u>\$ 13,789,318</u></u>

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

The annual requirements to amortize all outstanding debt, with the exception of the Bond Anticipation Notes, as of December 31, 2003, including interest payments of \$15,483,301 are as follows:

Year Ending December 31,	1992 RUS Revenue Bonds	1995 Water Revenue Bonds	1995-A Water Revenue Bonds	1999 Revenue Bonds	1999 Revenue Bonds	2001 Revenue Bonds	2002 Revenue Bonds	Total
	<u>\$3,313,000</u>	<u>\$2,756,000</u>	<u>\$133,000</u>	<u>\$2,900,000</u>	<u>\$300,000</u>	<u>\$1,490,000</u>	<u>\$3,800,000</u>	
2004	\$ 205,140	\$ 163,706	\$ 8,028	\$ 163,560	\$ 16,920	\$ 84,036	\$ 190,771	\$ 832,161
2005	205,140	163,706	8,028	163,560	16,920	84,036	208,114	849,504
2006	205,140	163,706	8,028	163,560	16,920	84,036	208,114	849,504
2008	205,140	163,706	8,028	163,560	16,920	84,036	208,114	849,504
2009	205,140	163,706	8,028	163,560	16,920	84,036	208,114	849,504
2009-2013	1,025,700	818,532	40,139	817,800	84,600	420,180	1,040,568	4,247,519
2014-2018	1,025,700	818,532	40,139	817,800	84,600	420,180	1,040,568	4,247,519
2019-2023	1,025,700	818,532	40,139	817,800	84,600	420,180	1,040,568	4,247,519
2024-2028	1,025,700	818,532	40,139	817,800	84,600	420,180	1,040,568	4,247,519
2029-2033	820,560	818,532	40,139	817,800	84,600	420,180	1,040,568	4,042,379
2034-2038	-	327,413	16,057	817,800	84,600	420,180	1,040,568	2,706,618
2039-2043	-	-	-	68,150	7,050	238,102	849,797	1,163,099
	<u>\$ 5,949,060</u>	<u>\$5,238,603</u>	<u>\$ 256,892</u>	<u>\$ 5,792,750</u>	<u>\$ 599,250</u>	<u>\$ 3,179,362</u>	<u>\$ 8,116,432</u>	<u>\$ 29,132,349</u>

The Bond Anticipation Notes, dated November 8, 2001, totaling \$3,510,000, that provided interim financing for the Rural Utilities Service Phase II (Bedico/Robert/Robertson Road) project, were redeemed and permanent financing was obtained from the Rural Utilities Service, consisting of Water Revenue Bonds, Series 2002, not to exceed a total of \$3,820,000. The above schedule includes the projected principal and interest payments for the Water Revenue Bonds, Series 2002 issue, based on final receipt of \$3,820,000, although only a total of \$3,493,259 was received as of December 31, 2003.

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

9. Flow of Funds, Restrictions on Use

The Tangipahoa Water District has the following bond and reserve requirements that apply to *Rural Utilities Service (RUS)* bonds:

That all of the income and revenues derived or to be derived by the Issuer from the operation of the District shall continue to be deposited in a separate and special bank account with the regularly designated fiscal agent bank of the Issuer, to be established with the regularly designated fiscal agent bank of the Issuer and designated as the "*Waterworks Revenue Fund*," said Fund to be maintained and administered in the following order of priority and for the following express purposes:

- (a) The payment of, first, all reasonable and necessary expenses of operating and maintaining the System.
- (b) The establishment and maintenance of the "Waterworks Revenue Bond and Interest Sinking Fund," sufficient in an amount to pay promptly and fully the principal of and the interest on the Bond and any pari passu bonds issued hereafter in the manner provided by this resolution by transferring from the Waterworks Revenue Fund to the regularly designated fiscal agent bank of the Issuer, monthly in advance on or before the 20th day of each month of each year a sum equal to the principal and interest falling due on the next principal and interest payment date together with such additional proportionate sum as may be required to pay said principal and interest as the same respectively become due. The Tangipahoa Water District has decided to make these monthly payments directly to RUS, thus eliminating the need for a Sinking Fund.
- (c) The establishment and maintenance of the "Waterworks Reserve Fund" (*the Reserve Fund*), by transferring from said Waterworks Revenue Fund to the regularly designated fiscal agent bank of the Issuer, monthly in advance on or before the 20th day of each month of each year, a sum of \$2,672 per month beginning November 20, 2002, increasing the payment to \$2,673 per month beginning February 20, 2003, and increasing the monthly deposit requirement to \$3,375 with the completion and acceptance of the project being financed with the proceeds of the Water Revenue Bonds, Series 2002. Beginning February 20, 2004, the monthly deposit requirement is to be increased to \$3,540 until \$849,507.20 has been accumulated therein. The money in the Reserve Fund is to be retained solely for the purpose of paying the principal of and interest on bonds payable from the Sinking Fund as to which there would otherwise be default. In the event that additional pari passu bonds are issued hereafter in the manner provided by this resolution, the payments into the Reserve Fund shall continue, or if the said payments have ceased because of the accumulation of the maximum amount provided above, then such payments shall be resumed, until such time as there has been accumulated in the Reserve Fund an amount of money equal to the highest combined principal and interest requirements for any succeeding twelve (12) month period on such bonds payable from the Reserve Fund.

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

As of December 31, 2003, the Rural Utilities Service (RUS) Reserve Fund was fully funded per debt restrictions, with a balance of 144,155. During the fiscal year ending December 31, 2003, the United States Rural Utilities Service authorized transfer of \$113,000 from this fund for reimbursement of construction costs incurred by the District.

- (d) The establishment and maintenance of the "Waterworks Depreciation and Contingency Fund" (*the Contingency Fund*) to care for depreciation, extensions, additions, improvements and replacements necessary to operate properly the District, by transferring from the Waterworks Revenue Fund to the regularly designated fiscal agent bank of the Issuer, monthly in advance on or before the 20th day of each month of each year, a sum of \$2,672 per month beginning November 20, 2002, increasing the payment to \$2,710 per month beginning February 20, 2003, and increasing the monthly deposit requirement to \$3,413 with the completion and acceptance of the project being financed with the proceeds of the Water Revenue Bonds, Series 2002. Beginning February 20, 2004, the monthly deposit requirement is to be increased to \$3,578 until \$849,507.20 is on deposit in the Reserve Fund and then monthly payments increase to \$4,795. Money in the Contingency Fund shall also be used to pay the principal of and the interest on any bond for the payment of which there is not sufficient money in the Sinking Fund or the Reserve Fund, but if so used, such money shall be replaced by the Issuer as soon as possible thereafter out of the earnings of the System after making the required payments into the respective funds and accounts herein above specified.

If, at any time, it shall be necessary to use moneys in the Reserve Fund or the Contingency Fund as above provided for the purpose of paying principal of or interest on bonds payable as to which there would otherwise be default, then the moneys so used shall be replaced from the revenues first thereafter received, not herein above required to be used for operation and maintenance of the District or for current principal, interest and reserve requirements.

As of December 31, 2003, the Rural Utilities Service (RUS) Depreciation and Contingency Fund was fully funded, per debt restrictions, with a balance of \$250,354. During the fiscal year ending December 31, 2003, the United States Rural Utilities Service authorized transfer of \$32,035 from this fund for reimbursement of costs for capping a well.

**Tangipahoa Water District
Tangipahoa Parish Council**

**Notes to the Financial Statements
December 31, 2003 and 2002**

10. Restricted and Designated Net Assets

At December 31, 2003, Tangipahoa Water District recorded \$273,608 in Restricted Net Assets (Restricted for Capital Activity and Debt Service), representing the District's funds restricted by revenue bond debt covenants, contracts with customers for meter deposits, and the unspent portion of capital debt related to amounts restricted for capital projects less liabilities related to these restricted funds. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

In addition, for the fiscal year ending December 31, 2003, the Board of Commissioners of Tangipahoa Water District designated a total of \$83,866 as cash reserved for future capital improvement projects. Since this designation represents an internally imposed restriction, the amount designated for capital improvements is included within the category of Unrestricted Net Assets, totaling \$282,324 at December 31, 2003.

11. Litigation and Claims

At December 31, 2003, the District is involved in continuing litigation. Suits against the District for which there is a material exposure have a potential loss estimated not to exceed \$30,000.

12. Construction Commitments

At December 31, 2003, the District had recorded \$4,050,417 in construction costs for the Rural Utilities Service Phase II (Bedico/Robert/Robertson Road) project. This project was completed during February 2004.

An additional project award of \$740,438 by the Louisiana Community Development Block Grant Program (LCDBG) to the Tangipahoa Parish Council will provide for expansion of water lines in the Robert area. Upon completion of this project, this expansion will be transferred to Tangipahoa Water District for continued maintenance and operation.

13. Nonrecurring Loss

During the fiscal year ending December 31, 2003, Tangipahoa Water District expended \$32,035 to cap the Vicaro Well, per regulatory guidelines. This expense is an infrequent, but not unusual expense for a water district and is accounted for as a nonrecurring loss in the "Nonoperating Revenues (Expenses)" section of the Statement of Revenues, Expenses, and Changes in Net Assets.

Supplemental Information Schedules

**Tangipahoa Water District
Tangipahoa Parish Council**

Schedule 1

**Budgetary Comparison Schedule
Year Ended December 31, 2003**

(With Comparative Amounts for the Fiscal Year Ended December 31, 2002)

	Budget	Actual	Variance	2002
	2003	2003	Favorable (Unfavorable)	2002
Operating Revenues				
Water Sales	\$ 1,977,577	\$ 2,012,009	\$ 34,432	\$ 1,864,146
Penalties	43,678	44,458	780	41,442
Service Connection and Installation Fees	158,611	152,576	(6,035)	121,749
Reconnect Charges	29,670	31,250	1,580	35,925
Billing Fees	16,753	16,822	69	15,741
DHH Fee Allowance	-	2,864	2,864	2,650
Miscellaneous	9,408	8,559	(849)	9,237
Total Operating Revenues	<u>2,235,697</u>	<u>2,268,538</u>	<u>32,841</u>	<u>2,090,890</u>
Operating Expenses				
Accounting Fees	1,748	11,691	(9,943)	5,810
Amortization of Bond Issue Costs	1,398	1,419	(21)	1,419
Annual Audit Fee	15,000	8,500	6,500	15,000
Bad Debt Expense	1,386	1,155	231	9,382
Bank Charges	991	1,016	(25)	991
Chlorination	106,806	109,692	(2,886)	91,429
Computer Expense	8,351	7,268	1,083	7,304
Contract Labor	70,958	74,443	(3,485)	72,070
Depreciation	593,000	562,409	30,591	532,392
Director's Fees	18,200	17,900	300	16,200
Dues and Subscriptions	536	488	48	452
Educational Expense	725	604	121	1,308
Electricity Purchased	127,901	127,802	99	109,275
Employee Uniforms	5,924	5,684	240	7,487
Equipment Maintenance	10,940	10,089	851	9,758
Equipment Rental	5,272	4,896	376	8,887
Insurance	120,011	142,335	(22,324)	103,315
Legal Fees	11,099	11,659	(560)	18,672
Minute Clerk Fees	3,850	3,900	(50)	3,600
Miscellaneous	1,333	1,429	(96)	848
Office Expense	14,141	13,624	517	10,050
Office Supplies	23,162	23,369	(207)	18,393
Official Journal	2,663	3,155	(492)	2,160

(Continued)

The accompanying notes are an integral part of these statements.

**Tangipahoa Water District
Tangipahoa Parish Council**

Schedule 1

**Budgetary Comparison Schedule
Year Ended December 31, 2003**

(With Comparative Amounts for the Fiscal Year Ended December 31, 2002)

	Budget 2003	Actual 2003	Variance Favorable (Unfavorable)	2002
Operating Costs - Trucks	\$ 44,362	\$ 45,224	\$ (862)	\$ 42,593
Payroll Taxes	31,871	29,163	2,708	27,559
Postage and Box Rent	36,548	35,956	592	27,870
Professional Fees	1,984	1,653	331	413
Repairs, Maintenance and Supplies	59,800	68,275	(8,475)	54,561
Retirement Contributions	14,178	14,039	139	13,925
Telephone	11,072	11,044	28	11,599
Utilities	7,816	7,581	235	7,344
Wages and Salaries	414,494	418,529	(4,035)	382,968
Water Well Maintenance and Supplies	27,684	27,923	(239)	33,522
Total Operating Expenses	1,795,204	1,803,914	(8,710)	1,648,556
Operating Income (Loss)	440,493	464,624	24,131	442,334
Nonoperating Revenues (Expenses)				
Interest Income	24,146	23,863	(283)	145,126
Recovery of Bad Debts	1,681	1,401	(280)	1,212
Sale of Fixed Assets	6,536	6,536	-	5,339
Loss on Disposal of Fixed Assets	-	(6,566)	(6,566)	(6,602)
Lightning Damage Loss	-	(893)	(893)	-
Cost of Capping Well	(32,035)	(32,035)	-	-
Interest Expense	(560,000)	(518,161)	41,839	(523,508)
Total Nonoperating Revenues (Expenses)	(559,672)	(525,855)	33,817	(378,433)
Income (Loss) Before Contributions	(119,179)	(61,231)	57,948	63,901
Capital Contributions	-	-	-	108,500
Change in Net Assets	(119,179)	(61,231)	57,948	172,401
Net Assets, Beginning of Year	5,605,523	5,602,523	(3,000)	5,430,122
Net Assets, End of Year	\$ 5,486,344	\$ 5,541,292	\$ 54,948	\$ 5,602,523

(Concluded)

The accompanying notes are an integral part of these statements.

**Tangipahoa Water District
Tangipahoa Parish Council**

Schedule 2

**Schedule of Compensation Paid Board Members
Year Ended December 31, 2003**

<u>Board of Commissioners</u>	<u>Per Diem</u>	<u>Term of Office</u>
Tommy Levatino, President 53299 W. Fontana Road Independence, LA 70443 Phone: (985) 878-4341	\$ 2,100	Expires March 2005
Nathan Sticker, Vice-President 40305 C C Road Ponchatoula, LA 70454 Phone: (985) 845-7315	2,600	Expires March 2008
Dickie Davidge, Secretary 123 South Cate Street Hammond, LA 70403 Phone: (985) 542-7187	2,000	Expires February 2008
Joe Perrin, Treasurer 39502 Teel Road Ponchatoula, LA 70454 Phone: (985) 386-3147	2,600	Expires May 2004
Eugene Traylor 41041 Pumpkin Center Road Hammond, LA 70403 Phone: (985) 294-5228	1,300	Expired July 2003
Frank Fowler 73309 Wiley Blades Road Kentwood, LA 70444 Phone: (985) 229-4258	1,700	Expires September 2004
Mike Miller 68024 Hwy. 1061 Kentwood, LA 70444 Phone: (985) 229-8815	2,000	Expires September 2004
Larry Byers 39693 Howes Lane Ponchatoula, LA 70454 (985) 386-2247	1,100	Expires July 2007
Dr. J. L. Garrett 506 N. Cherry Street Hammond, LA 70401 Phone: (985) 345-5977	2,500	Expires March 2005
Total Compensation Paid	<u>\$ 17,900</u>	

The accompanying notes are an integral part of these statements.

**Tangipahoa Water District
Tangipahoa Parish Council**

Schedule 3

**Schedule of Insurance
As of and for the Year Ended December 31, 2003**

<u>Insurance Company</u>	<u>Coverage</u>	<u>Amount</u>	<u>Period</u>
St. Paul Insurance Company Package Policy Number GP09310685	Commercial Property:		
	Total Coverage	\$ 5,701,850	05/01/03 - 05/01/04
	Commercial General Liability:		
	General Aggregate	2,000,000	
	Products-Completed Operations	2,000,000	
	Personal Injury	1,000,000	
	Each Occurrence	1,000,000	
	Fire Damage	100,000	
	Inland Marine:		
	Total Coverage	129,871	
	Employee Benefits Plan Admin. Liability:		
	Policy Limit	3,000,000	
	Each Act	1,000,000	
	Public Entity Management Liability:		
	Total Limit	1,000,000	
	Each Act	1,000,000	
	Commercial Automobile:		
Liability	500,000		
Comprehensive/Collision (as scheduled)			
Commercial Crime:			
Blanket Limit	550,000		
Commercial Excess/Umbrella:			
General Aggregate	5,000,000		
Each Occurrence	5,000,000		
Louisiana Employers Managed Insurance Company Policy # 777-03612-03	Worker's Compensation:		
	Employers Liability		05/01/03 - 05/01/04
	Bodily Injury, Each Accident	500,000	
	Employers Liability		
Disease, Each Employee	500,000		
Employers Liability			
Disease, Policy Limit	500,000		

The accompanying notes are an integral part of these statements.

**Tangipahoa Water District
Tangipahoa Parish Council**

Schedule 4

**Schedule of Water Customers
December 31, 2003**

	Number of Customers
Residential Service Type	9,090
Commercial Service Type	328
	9,418
Commercial users having a meter larger than the residential size (3/4")	274

**Schedule of Water Rates
December 31, 2002**

Service Type	Base Rate	Cost Per 1,000 Gallons Above Base Rate
Residential Metered	\$9.00 First 3,000 Gallons;	\$1.25 Over First 3,000 Gal
Residential Flat Rate	\$25.00 Flat Rate	
Commercial		
3/4" Meter	\$20.00 First 10,000 Gallons;	\$1.25 Over First 10,000 Gal
1" Meter	\$20.00 First 10,000 Gallons;	\$1.25 Over First 10,000 Gal
1½" Meter	\$40.00 First 20,000 Gallons;	\$1.25 Over First 20,000 Gal
2" Meter	\$60.00 First 30,000 Gallons;	\$1.25 Over First 30,000 Gal
3" Meter	\$80.00 First 40,000 Gallons;	\$1.25 Over First 40,000 Gal
4" Meter	\$100.00 First 50,000 Gallons;	\$1.25 Over First 50,000 Gal
6" Meter	\$125.00 First 60,000 Gallons;	\$1.25 Over First 60,000 Gal
Apartments		
Metered	\$8.50/Unit First 3,000 Gallons;	\$1.25 Over First 3,000 Gal
Unmetered	\$12.00 Per Unit	
Schools	Billed According to Meter Size	
Dairy Farms	\$40.00 First 30,000 Gallons;	\$0.80 Over First 30,000 Gal

The accompanying notes are an integral part of these statements.

**Tangipahoa Water District
Tangipahoa Parish Council**

Schedule 5

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2003**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Receipts or Revenue Recognized	Disbursements or Expenditures
U. S. Department of Agriculture Water and Waste Disposal Systems For Rural Communities Construction (Phase II Bedico/Robert/Robertson)	10.760	1,417,866	1,417,866
		<u>\$ 1,417,866</u>	<u>1,417,866</u>

Note 1: The accompanying schedule of expenditures of federal awards includes the federal loan/grant activity of Tangipahoa Water District and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations".

Note 2: The Phase II (Bedico/Robert/Robertson Road) project is being funded with Water Revenue Bonds, Series 2002 totaling \$3,820,000, provided by the Rural Utilities Service. The District recorded a total of \$4,050,417 construction in progress expenditures for Phase II, as of December 31, 2003; with \$1,417,866 recorded in the fiscal year ending December 31, 2003, and \$2,632,551 recorded for Phase II as of December 31, 2002.

The accompanying notes are an integral part of these statements.

Other Independent Auditor's Reports and Schedule of Findings and Questioned Costs

Independent Auditor's Report on
Compliance and on Internal Control over
Financial Reporting Based on an Audit of
Basic Financial Statements Performed in
Accordance with *Government Auditing Standards*

Durnin & James

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION
HAMMOND, LA • AMITE, LA

John N. Durnin, CPA
Dennis E. James, CPA

Member
American Institute of CPA's
Society of Louisiana CPA's

March 24, 2004

Independent Auditor's Report on Compliance and on
Internal Control over Financial Reporting Based on an
Audit of Basic Financial Statements Performed in
Accordance with *Government Auditing Standards*

Board of Commissioners
Tangipahoa Water District
Tangipahoa Parish Council

We have audited the financial statements of the business-type activities of the Tangipahoa Water District, Natalbany, Louisiana, as of and for the year ended December 31, 2003, which comprise the District's basic financial statements and have issued our report thereon dated March 24, 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 Tangipahoa Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 2003-01.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Tangipahoa Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations 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 Tangipahoa Water District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-02 and 2003-03.

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 functions. Our consideration of the internal control over financial

Tangipahoa Water District
Tangipahoa Parish Council

reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management, the Louisiana Legislative Auditor, and the Rural Utilities Service office. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Durnin & James

Durnin & James, CPAs
(A Professional Corporation)

Independent Auditor's Report on Compliance with
Requirements Applicable to Each Major
Program and Internal Control over
Compliance in Accordance with
OMB Circular A-133

Durnin & James

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March 24, 2004

Independent Auditor's Report on Compliance with
Requirements Applicable to Each Major Program and
Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Commissioners
Tangipahoa Water District
Tangipahoa Parish Council

Compliance

We have audited the compliance of the Tangipahoa Water District, Natalbany, Louisiana, a component unit of the Tangipahoa Parish Council, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The Tangipahoa Water District's major federal programs are identified in the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District Attorney of the Tangipahoa Water District's management. Our responsibility is to express an opinion on Tangipahoa Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Tangipahoa Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Tangipahoa Water District's compliance with those requirements.

In our opinion, the Tangipahoa Water District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

Internal Control over Compliance

The management of the Tangipahoa Water District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs.

In planning and performing our audit, we considered the Tangipahoa Water District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to

Tangipahoa Water District
Tangipahoa Parish Council

determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on *internal control over compliance in accordance with OMB Circular A-133.*

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Respectfully submitted,

Durnin & James

Durnin & James, CPAs
(A Professional Corporation)

Corrective Action Plan

**Tangipahoa Water District
Tangipahoa Parish Council**

Schedule 6

**Corrective Action Plan for Prior Year Audit Findings
For the Year Ended December 31, 2003**

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

No Findings for Section I

Section II - Internal Control and Compliance Material to Federal Awards

No Findings for Section II

Section III - Management Letter

No Findings for Section III

**Tangipahoa Water District
Tangipahoa Parish Council**

Schedule 7

**Corrective Action Plan for Current Year Audit Findings
For the Year Ended December 31, 2003**

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

Compliance

Reference Number: 2003-01

Description of Finding:

During our audit and review of legislation enabling the creation of water districts, we noted that the Tangipahoa Water District did not comply with certain provisions of the fiscal agency requirements of state law, LSA-RS 33:3817C(1). The requirements of the fiscal agency laws and the manner in which the District failed to comply are as follows:

Finding:

State law, LSA-RS 33:3817C(1), requires the District "... on the first Monday in June annually to elect a fiscal agent after an advertisement of fifteen days in a newspaper published in the district, and if there be no such newspaper within the district, then in the official journal of the parish where the district is located..." Based on our audit procedures performed, there is no evidence in the files that the District advertised for a fiscal agent for the year ended December 31, 2003, as required by state law.

Recommendation:

We recommend that the Tangipahoa Water District annually elect a fiscal agent on the first Monday in June after an advertisement of fifteen days in a newspaper published in the district as required by state law.

Corrective Action Planned (Response by Management):

In management's corrective action plan dated April 26, 2004, the manager indicated that in the future they would annually advertise for a fiscal agent as required by state law.

Internal Control

Reference Number: 2003-02 – Adjustments to Utility Billing Accounts Receivable

Condition:

During our audit and review of adjustments to the utility billing accounts receivable, we noted that two employees who collect payments from customers also prepare adjustments to the utility billing accounts receivable. Each of these employees maintains a manual ledger of the adjustments made along with any documentation explaining why the adjustment was made. Periodically, each employee prints an adjustment edit report from the computer system that contains the adjustments made in the computer that were posted to the individual customer accounts. While the individuals preparing the adjustments review the computer system edit reports for accuracy, they do not perform a reconciliation to make sure that all of the adjustments appearing on the computer system edit reports are properly documented on the manual adjustments ledger. Furthermore, there is no evidence in the files that someone of a supervisory level above these two individuals is reviewing the adjustments being made. We believe improvement

**Tangipahoa Water District
Tangipahoa Parish Council**

**Corrective Action Plan for Current Year Audit Findings
For the Year Ended December 31, 2003**

is needed in this area to make sure that unauthorized adjustments are not made to the utility billing accounts receivable. The cause of this condition appears to be a flaw in the design and operation of the approval process for utility billing accounts receivable adjustments. As a result, allowing certain utility billing clerks who also accept payments from customers to make adjustments to the utility billing accounts receivable without the review and approval of supervisory personnel creates an environment in which unauthorized adjustments could occur and not be detected in a timely manner.

Recommendation:

We believe a number of steps could be taken to significantly increase internal controls over adjustments to the utility billing accounts receivable. First, to the extent possible, persons authorized to make adjustments to the utility billing system should not be allowed to accept payments from customers or prepare the daily deposit. Second, a computer edit report should be printed at the end of each day of the computer adjustments for that day and this report should be reconciled by the employee to the manual adjustments ledger and other supporting documentation. Third, we recommend that the business office supervisor review the adjustments report and documentation daily and document their review and approval by initialing the computer edit report.

Corrective Action Planned (Response by Management):

In management's corrective action plan dated April 26, 2004, the manager indicated that, to the extent possible, the persons responsible for making adjustments to the utility billing accounts receivable would not be allowed to receive payments from customers or prepare the daily bank deposit. Furthermore, the computer edit adjustment report will be reconciled to the manual adjustments ledger on a daily basis and these reports will be reviewed by the business office supervisor for accuracy.

Reference Number: 2003-03 – Supervisory Personnel Review of Daily Bank Deposit

Condition:

During our audit and review of the cash collection process, we noted that one of two employees who is responsible for preparing the daily bank deposit also collects payments from customers and is responsible for making adjustments to the utility billing accounts receivable. Each morning this employee runs an edit report from the utility billing system that contains a detailed listing of the cash receipts entered into the computer system for the previous day. This employee reconciles this computer edit list to the money available in the cash drawer and prepares the bank deposit. There is no evidence in the files that someone of a supervisory level above the individuals making the daily bank deposit is reviewing the cash receipts reconciliation for accuracy. The cause of this condition appears to be a flaw in the design and operation of the approval process for the daily cash receipts reconciliation process. As a result, allowing a utility billing clerk who can accept payments from customers and who also make adjustments to the utility billing accounts receivable to perform the end of day reconciliation and prepare the bank deposit without the review and approval of supervisory personnel creates an environment in which intentional or unintentional errors could occur and not be detected in a timely manner.

**Tangipahoa Water District
Tangipahoa Parish Council**

**Corrective Action Plan for Current Year Audit Findings
For the Year Ended December 31, 2003**

Recommendation:

We believe a number of steps could be taken to significantly increase internal controls over the cash receipts reconciliation process. First, to the extent possible, persons authorized to make adjustments to the utility billing system should not be allowed to prepare the daily deposit. Second, the completed bank deposit and computer edit report should be reviewed and approved by the business office supervisor before the bank deposit is delivered to the bank. Third, someone other than the person preparing the deposit should deliver the deposit to the bank. Fourth, the validated deposit slip from the bank should be attached to the computer edit report verifying that the days deposit reconciles to the computer edit report and this documentation should be signed by the business office supervisory evidencing their review and approval of the deposit.

Corrective Action Planned (Response by Management):

In management's corrective action plan dated April 26, 2004, the manager indicated that, to the extent possible, the persons responsible for preparing the daily deposit would not be allow to make adjustments to the utility billing accounts receivable system. Furthermore, the computer cash receipts edit listing along with the deposit will be reviewed by the business office manager prior to delivering the deposit to the bank. Either the validated deposit slip or a copy will be attached to the computer cash receipts edit report and signed by the business office supervisor evidencing their review and approval of the daily cash receipts reconciliation and deposit.

Section II - Internal Control and Compliance Material to Federal Awards

No Findings for Section II

Section III - Management Letter

No Findings for Section III

Schedule of Findings and Questioned Costs

**Tangipahoa Water District
Tangipahoa Parish Council**

Schedule 8

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003**

I. Type of Report Issued on the Financial Statements

An unqualified opinion was issued on the financial statements for the Tangipahoa Water District.

II. Disclosure of Reportable Conditions in Internal Control

There were two reportable conditions disclosed within the *Corrective Action Plan For Current Year Audit Findings* as Reference 2003-02 and 2003-03. These two reportable conditions disclosed were not considered material weaknesses as required to be reported in accordance with *Governmental Auditing Standards*

III. Disclosure of Noncompliance Material to the Financial Statements

There was one instance of noncompliance, material to the financial statements, disclosed by the audit of the financial statements of the Tangipahoa Water District, which is required to be reported in accordance with *Government Auditing Standards*. This condition is disclosed within the *Corrective Action Plan For Current Year Audit Findings* as Reference 2003-01.

IV. Disclosure of Reportable Conditions in Internal Control over Major Programs

There were no reportable conditions for Major Programs for the Tangipahoa Water District, for the fiscal year ending December 31, 2003.

V. Type of Report Issued for Major Programs

Unqualified.

VI. Disclosure of Audit Findings Required to be Reported under S__.510 Audit Findings

There were no findings to be reported under S__.510 *Audit Findings*.

VII. Identification of Major Programs

The major program identified for the Tangipahoa Water District for the fiscal year ending December 31, 2003, was the U.S. Department of Agriculture, Water and Waste Disposal Systems for Rural Communities, CFDA Number 10.760.

**Tangipahoa Water District
Tangipahoa Parish Council**

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003**

VIII. Dollar Threshold to Distinguish Between Type "A" and Type "B" Programs

Expenditures of \$300,000.

IX. Statement as to Whether the Auditee qualified as Low Risk Auditee under S__ .530

Yes. The Tangipahoa Water District qualified as a low-risk auditee under the provisions of S__ .530.