

**ST. MARY PARISH WATER AND SEWER
COMMISSION NO. 1 OF THE
PARISH OF ST. MARY,
STATE OF LOUISIANA
FINANCIAL STATEMENTS
Year Ended December 31, 2003**

In accordance with the 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 5.12.04

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The Board of Supervisors
St. Mary Parish Water and Sewer Commission No. 1
Parish of St. Mary, State of Louisiana
Amelia, Louisiana

We have audited the accompanying financial statements of the St. Mary Parish Water and Sewer Commission No. 1 Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Council, as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the Commission's officials. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the St. Mary Parish Water and Sewer Commission No. 1 Parish of St. Mary, State of Louisiana, as of December 31, 2003, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America

The St. Mary Parish Water and Sewer Commission No. 1, Parish of St. Mary, State of Louisiana, adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Statement No. 37, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, as of January 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 23, 2004 on our consideration of the Commission's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations and contracts.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as "Supplemental Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the St. Mary Parish Water and Sewer Commission No. 1 Parish of St. Mary, State of Louisiana. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole, except that:

1. the insurance coverage data has not been audited by us and we express no opinion on it, and
2. information as to the number of metered utility customers presented on page 31 is based on unaudited data obtained from the Commission's records, on which we express no opinion.

The management's discussion and analysis on pages 4 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Dannall, Sikes & Frederick

A Corporation of Certified Public Accountants

Morgan City, Louisiana
February 23, 2004

FINANCIAL SECTION

Management's Discussion and Analysis

As management of the St. Mary Parish Water & Sewer Commission No. 1 of the Parish of St. Mary, State of Louisiana, we provide readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission, for the year ended December 31, 2003. Please read it in conjunction with the basic financial statements and the accompanying notes to the financial statements.

Profile of the Government

On January 24, 1996 the St. Mary Parish Water & Sewer Commission No. 1 was formed. It now provides water and sewer services to its customers. The Commission was formed in efforts to consolidate St. Mary Parish Water District No. 3, St. Mary Parish Sewer District No. 4, and the section of St. Mary Parish Sewer District No. 1 outside of the corporate limits of Morgan City, Louisiana. The Commission is a component of St. Mary Parish, State of Louisiana because the Parish must approve all officials appointed to the Commission's Board of Supervisors.

This is the first year that the Commission has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Because this new reporting model changes significantly not only the presentation of financial data, but also the manner in which the information is recorded, prior year comparative information for this year reporting period MD&A has not been included. In future years, comparative analysis of government-wide data will be presented.

Financial Highlights

The financial statements provide these insights into the results of this year's operations.

- Total operating revenues have declined from 2002 by \$6,569 or approximately 1%. A major contributor to this decrease was a \$15,000 credit to one of the Commission's commercial customers in sewer charges.
- During the year ended December 31, 2003 the Commission had total operating expenses, excluding depreciation, totaling \$771,050, a decrease of \$34,609 or approximately 5%.
- Excluding depreciation, the Commission realized a net operating income, or positive cash flow of \$261,134.
- The majority of net assets are invested in capital assets, which makes up \$5,677,134 of net assets.

Using This Annual Report

This annual report contains a series of financial statements. The statement of net assets on pages 9 and 10, and the statement of revenues, expenses, and changes in net assets on pages 9 and 10 provide information on all activities of the Commission as a whole. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The accompanying financial statements present information only on the funds maintained by the Commission.

All of the Commission's expenses incurred for the provision of water and sewer services are reported in a proprietary fund, which focuses on measuring the total cost, including depreciation of the services, and primarily recovering those costs through user fees or other revenue sources. This fund is reported using the accrual basis of accounting, which measures revenues when earned and expenses when incurred.

The Fund Maintained by the Commission as a Whole

The Commission's total net assets changed from a year ago, decreasing from \$7,074,003 to \$6,991,373. The year 2003 was the first period that GASB Statement 34 has been applied. The Commission was not required to restate the prior periods for purposes of providing comparative data. However our analysis below will focus on key elements of the total funds for the year 2003. In future years, when prior year information is available, a comparative analysis of the funds maintained by the Commission will be presented.

Condensed Statement of Net Assets

Assets:	
Current and other assets	\$ 1,524,355
Capital assets, net	<u>5,677,134</u>
Total assets	<u>\$7,201,489</u>
Current liabilities	210,116
Net assets:	
Investment in capital assets	5,677,134
Restricted for maintenance	7,252
Unrestricted	<u>1,306,987</u>
Total net assets	6,991,373
Total liabilities and net assets	<u>\$7,201,489</u>

Change in Net Assets

Operating revenues	\$ 581,170
Operating expenses	<u>1,114,814</u>
Operating loss	<u>(533,644)</u>
Nonoperating revenues	
Ad valorem taxes	284,749
Grant revenues	124,097
Intergovernmental revenues	25,000
Interest income	<u>17,168</u>
Total nonoperating revenues	<u>451,014</u>
Decrease in net assets	<u>\$ (82,630)</u>

The Commission's Net assets decreased by \$82,630 or 1.17%. Part of this decrease is due to operating revenues declining approximately \$6,569 or 1% from prior year. One of the contributors of this decrease in revenues was related to a \$15,000 credit that was given to one of the Commission's commercial customers in response to an erroneous billing.

Depreciation expense for 2003 and 2002 was \$343,764 and \$348,289, respectively. Operating expenses, excluding depreciation, decreased from \$805,659 in 2002 to \$771,050 in 2003, a decrease of approximately \$34,000 or 5%. Excluding depreciation, the Commission realized a net operating income of \$261,134.

Capital Assets

At the end of 2003, the Commission had invested \$5,677,134 in capital assets net of accumulated depreciation. Capital assets are categorized as follows:

Capital Assets at Year End

Land and improvements	\$ 205,726
Buildings and improvements	4,052,997
Equipment and furniture	208,664
Improvements other than buildings	7,826,044
Construction in progress	451,906
Accumulated depreciation	<u>(7,068,203)</u>
Total capital assets net of accumulated depreciation	<u>\$ 5,677,134</u>

Major capital asset events during the current fiscal year included the following:

- Substantial completion of the Raw Water Intake Structure Project. Expenditures as of December 31, 2003 amounted to approximately \$392,000. This amount is included in construction in progress.

Additional information on the Commission's capital assets can be found in Note 5, page 18.

Employee Retirement Plan

Employees of St. Mary Parish Water and Sewer Commission No. 1 do not contribute to the Social Security retirement Plan. As of July 1, 1991 federal regulations mandated that all state and local government employees that are not participants with the social security retirement plan be enrolled in an approved alternate retirement plan. The Commission subsequently established a simplified employee retirement Plan (SEP). The provisions of this plan provide that the Commission deposits an amount equal to at least 7.5% of the total amount of FICA wages earned by the employee. Each employee with the Commission has an individual retirement account (IRA), whereby the Commission makes quarterly deposits. Under this plan, any employee who is 21 years of age, and has one year of employment, will be covered by the plan. The following shows the amount of pension expense for the past three years as compared to the gross salaries for the same three years.

Total Pension Expense		
2001	2002	2003
\$20,110	\$19,759	\$19,449
Total Gross Salaries		
2001	2002	2003
\$267,015	\$ 264,479	\$259,233

Cash Management Policies and Practices

The Commission is allowed to invest in obligations of the U.S. Government that are federally sponsored, and certificates of deposits of state banks and national banks that have their main office in the state of Louisiana. The Commission chose to invest in certificates of deposits with MC Bank and Trust of Morgan City. The Commission also has an investment with the Louisiana Asset Management Pool (LAMP), which is simply a state government investment pool.

Risk Management

St. Mary Parish Water & Sewer Commission No. 1 has an insurance policy through the commercial insurance market to cover certain risks of loss related to the following:

- Theft of assets
- Damage of assets
- Errors and omissions
- Injuries to employees
- Natural disasters

Local Economy

St. Mary Parish Water and Sewer Commission No. 1 services approximately 242 commercial customers and 882 residential customers. While maintaining approximately the same number of residential customers in recent years, the Commission has lost a number of commercial accounts. This trend had stabilized somewhat in 2002, and in 2003 the commission has realized somewhat of an up swing in commercial accounts. We anticipate a continued modest increase in commercial accounts in 2004, which should in turn increase user fees modestly.

Factors Affecting Financial Condition

Roughly one half of the Commission's annual cash flows are from user fees. In recent years the Commission has experienced a reduction in user fees due to a reduction in the number of commercial accounts. It is anticipated that the number of commercial accounts will modestly increase in 2004, thus increasing revenues from an operational standpoint.

Requests for Information

This financial report is designed to provide a general overview of the St. Mary Parish Water and Sewer Commission No. 1's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Roland Verret, Board President, St. Mary Parish Water & Sewer Commission No.1, P.O. Box 309, Amelia, La. 70340-0309.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Statement of Net Assets
December 31, 2003

ASSETS

Current assets:		
Cash and cash equivalents	\$	927,874
Investments		111,068
Receivables:		
Accounts		55,258
Ad valorem taxes		261,542
Accrued interest		804
Due from State of Louisiana		66,455
Inventories		19,692
Prepaid expenses		<u>29,722</u>
Total current assets		<u>1,472,415</u>
Restricted assets:		
Customer deposits		<u>51,940</u>
Capital assets:		
Land and improvements		205,726
Buildings and improvements		4,052,997
Equipment and furniture		208,664
Improvements other than buildings		7,826,044
Construction in progress		451,906
Net of accumulated depreciation		<u>(7,068,203)</u>
Total capital assets, net of depreciation		<u>5,677,134</u>
Total assets	\$	<u>7,201,489</u>

LIABILITIES

Current liabilities:

Accounts payable - trade	\$ 137,616
Accrued payroll and payroll taxes	3,352
Accrued expenses and sales taxes	656
Due to St. Mary Parish Council	<u>16,552</u>
Total current liabilities	158,176
Current liabilities payable from restricted assets -	
Customer's meter deposits	<u>51,940</u>
Total liabilities	<u>210,116</u>

NET ASSETS

Invested in capital assets, net of related debt	5,677,134
Restricted for maintenance	7,252
Unrestricted	<u>1,306,987</u>
Total net assets	<u>6,991,373</u>

Total liabilities and net assets \$ 7,201,489

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

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended December 31, 2003

Operating revenues:	
Water sales	\$ 361,334
Sewer sales	192,703
Delinquent charges	7,891
Reconnect charges	2,900
Transfer fees	4,460
Commissions	7,390
Miscellaneous	<u>4,492</u>
Total operating revenues	581,170
Operating expenses:	
Salaries and payroll taxes	262,245
Installation and repair of lines, hydrants, pumps and meters	53,035
Plant maintenance	71,935
Repairs and maintenance of buildings and towers	7,035
Depreciation	343,764
Commissioners' fees	7,260
Utilities	54,367
Insurance	71,437
Miscellaneous	2,675
Employee medical insurance	60,339
Postage	5,271
Accounting and auditing	4,370
Stationery, printing and office supplies	5,999
Telephone and telegraph	5,843
Vehicle	9,148
Pension expense	19,449
Chemicals	72,597
Plant supplies	42,751
Pond testing fees	8,225
Bad debt	58
Permit fees	<u>7,011</u>
Total operating expenses	<u>1,114,814</u>
Operating loss	<u>(533,644)</u>

(Continued)

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Statement of Revenues, Expenses and Changes in Fund Net Assets
(Continued)
Year Ended December 31, 2003

Nonoperating revenues	
Interest	\$ 17,168
Federal grants	14,597
State grants	109,500
St. Mary Parish Council	25,000
Ad valorem tax	<u>284,749</u>
 Total nonoperating revenues	 <u>451,014</u>
 Change in net assets	 (82,630)
 Net assets, beginning	 <u>7,074,003</u>
 Net assets, ending	 <u>\$ 6,991,373</u>

The accompanying notes are an integral part of this statement.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Statement of Cash Flows
Year Ended December 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 581,639
Payments to suppliers for goods and services	(401,162)
Payments to employees	<u>(263,847)</u>
Net cash used by operating activities	<u>(83,370)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Ad valorem taxes	317,411
Intergovernmental revenues	25,000
Grant revenues	<u>57,642</u>
Net cash provided by noncapital financing activities	<u>400,053</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Bond shortfall	(104,124)
Acquisition and construction of capital assets	<u>(440,047)</u>
Net cash used by capital and related financing activities	<u>(544,171)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(1,220)
Interest received	<u>16,364</u>
Net cash provided by investing activities	<u>15,144</u>
Net increase in cash and cash equivalents	(212,344)
Cash and restricted cash - January 1, 2003	<u>1,192,158</u>
Cash and restricted cash - December 31, 2003	<u>\$ 979,814</u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating loss	<u>\$ (533,644)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	343,764
Increase in accounts receivable	(2,205)
Decrease in inventories	6,335
Increase in prepaid expenses	(2,720)
Increase in accounts payable	104,028
Decrease in payroll liabilities	(1,602)
Increase in due to other governments	194
Increase in customer meter deposits	<u>2,480</u>
Total adjustments	<u>450,274</u>
Net cash used by operating activities	<u>\$ (83,370)</u>
Reconciliation of total cash:	
Current assets - cash	927,874
Restricted assets - cash	<u>51,940</u>
Total cash	<u>\$ 979,814</u>

The accompanying notes are an integral part of this statement.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pursuant to Ordinance No. 1281 adopted by the St. Mary Parish Council on October 27, 1995, the St. Mary Parish Water and Sewer Commission No. 1 (the Commission) was created on January 24, 1996 to provide water and sewerage services to the customers of the former Waterworks District No. 3 of the Parish of St. Mary, State of Louisiana, the former Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana, and that area of Sewerage District No. 1 of the Parish of St. Mary, State of Louisiana, outside the corporate limits of Morgan City, Louisiana. Effective July 1, 1996, the operations of Waterworks District No. 3 and Sewerage District No. 4 have been incorporated into the St. Mary Parish Water and Sewer Commission No. 1. As further discussed in Note 10, Sewer District No. 1 of the Parish of St. Mary merged into the St. Mary Parish Water and Sewer Commission No. 1 in October 1999. The Commission is a component unit of the Parish of St. Mary. The Commission is an integral part of the Parish of St. Mary for financial reporting purposes. The financial statements of the Commission have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

Financial Reporting Entity

For financial reporting purposes in conformance with Governmental Accounting Standards Board Statement No. 14, the Commission is a component unit of the St. Mary Parish Council, the reporting entity (the Oversight Unit). The accompanying financial statements present information only as to the transactions of the Commission and are not intended to present fairly the financial position and results of operations of the St. Mary Parish Council.

Fund Accounting

The accounts of the Commission are organized and operated on a fund basis whereby a separate self-balancing set of accounts that comprise its assets, liabilities, net assets, revenues and expenses is maintained for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or regulations. The Commission is presented in the accompanying financial statements as follows:

PROPRIETARY FUND –

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The proprietary fund is accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when incurred. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal operating revenues of the Commission are water and sewer user fees. The operating cost of the proprietary fund is all costs associated with the operation of the water and sewer distribution system. 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 Commission's policy to use restricted resources first, and then unrestricted resources as they are needed.

In accordance with Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," it is the Commission's policy to apply all applicable GASB pronouncements as well as all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued prior to December 1, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Commission has not adopted any Financial Accounting Standards Board Statements or Interpretations, Accounting Principles Board Opinions or Accounting Research Bulletins of the Committee on Accounting Procedure issued after November 30, 1989.

Inventories

Inventories consisting of parts and supplies are stated at specific cost.

Capital Assets

All capital assets of the proprietary fund purchased or acquired with an original cost of \$1,000 or more for furniture and \$5,000 or more for equipment are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. The costs of maintenance and repairs are charged to income as incurred; significant renewals and betterments are capitalized. Reductions are made for retirements resulting from renewals or betterments. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	20 – 50 years
Equipment and furniture	5 – 10 years
Improvements other than buildings	25 years

Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against operations.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Investments

Louisiana statutes permit the Commission to invest in obligations of the U. S. Government and agencies of the U. S. Government, which are federally sponsored, and certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, and the state sponsored investment pool.

Ad Valorem Tax

The Commission levies an ad valorem tax based on property values determined by the Parish Tax Assessor's Office. The levy is effective and becomes an enforceable lien on the property upon mailing of the tax bills to property owners (usually between November 1 and November 15). Tax payment is due by December 31 and becomes delinquent on January 1 as which time interest begins to accrue. The taxes are billed and collected by the St. Mary Parish Sheriff's Office. The Commission is a proprietary fund and recognizes the taxes as non-operating revenues in the year in which they are levied.

Bad Debts

The Commission charges any uncollectible accounts directly to current operations. All accounts at December 31, 2003 are considered to be collectible.

Use of Estimates

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

Vacation and Sick Leave

Vacation and sick leave are recorded as expenditures of the period in which paid. Any liability the Commission might have in this regard at December 31, 2003 is considered immaterial; therefore, no liability has been recorded in the accounts.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 2 CASH AND CASH EQUIVALENTS

The carrying value of the Commission's cash deposits with financial institutions at December 31, 2003 totaled \$979,814 and the bank balance was \$983,162. Cash and cash equivalents and investments are stated at cost, which approximates market. Under state law these deposits 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 pledged securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank in the form of safekeeping receipts.

The deposits at December 31, 2003 were secured as follows:

Bank Balances	\$ <u>983,162</u>
Federal deposit insurance	103,851
Pledged Securities	<u>1,207,654</u>
Total federal deposit insurance and pledged securities	<u>1,311,505</u>
Excess	<u>\$ 328,343</u>

NOTE 3 INVESTMENTS

Investments in the amount of \$111,068 at December 31, 2003 are in the Louisiana Asset Management Pool, Inc. (LAMP), a local government investment pool. In accordance with GASB Codification Section 1150.165, the investment in LAMP is not categorized in the three risk categories provided by GASB Codification Section 150.164 because the investment is in the pool of funds and thereby not evidenced by securities that exist in physical or book entry form. LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana, and is governed by a board of directors comprised of representatives from various local governments and state wide professional organizations. Only local governments having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U. S. Treasury, the U. S. government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities.

Description	<u>Year Acquired</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Cost</u>
Louisiana Management Asset Pool	2000	Various	N/A	<u>\$ 111,068</u>

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 4 AD VALOREM TAXES

For the year ended December 31, 2003, the Commission levied taxes of 10.00 mills for maintenance and operation on property within the Commission's boundaries. The total assessed valuation on these properties was \$35,740,431 and total taxes levied were \$339,483. Taxes receivable at December 31, 2003 was \$261,542.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land and improvements	\$ 205,726	\$ -	\$ -	\$ 205,726
Construction in progress	<u>33,140</u>	<u>418,766</u>	<u>-</u>	<u>451,906</u>
Total capital assets not being depreciated	<u>238,866</u>	<u>418,766</u>	<u>-</u>	<u>657,632</u>
Other capital assets:				
Building and improvements	4,052,997	-	-	4,052,997
Equipment and furniture	206,102	12,500	(9,938)	208,664
Improvements other than buildings	<u>7,817,264</u>	<u>8,780</u>	<u>-</u>	<u>7,826,044</u>
Total other capital assets	<u>12,076,363</u>	<u>21,280</u>	<u>(9,938)</u>	<u>12,087,705</u>
Less accumulated depreciation for:				
Building and improvements	(1,371,952)	(83,970)	-	(1,455,922)
Equipment and furniture	(157,070)	(15,646)	9,938	(162,778)
Improvements other than buildings	<u>(5,205,356)</u>	<u>(244,147)</u>	<u>-</u>	<u>(5,449,503)</u>
Total accumulated depreciation	<u>(6,734,378)</u>	<u>(343,763)</u>	<u>9,938</u>	<u>(7,068,203)</u>
Other capital assets, net	<u>5,341,985</u>	<u>(322,483)</u>	<u>-</u>	<u>5,019,502</u>
Capital assets, net	<u>\$5,580,851</u>	<u>\$ 96,283</u>	<u>\$ -</u>	<u>\$5,677,134</u>

Depreciation charged to income was \$343,763 for the years ended December 31, 2003. During the year ended December 31, 2003, new equipment and improvements costing \$440,046, were purchased.

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA**

Notes to the Financial Statements

NOTE 6 RESTRICTED ASSETS

The Commission's restricted assets consisted of the following at December 31, 2003:

Customers' meter deposits:

Cash	<u>\$ 51,940</u>
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NOTE 7 EMPLOYEE RETIREMENT PLAN

Federal regulations require that all state and local government employees not covered by FICA be covered by some alternate retirement plan after June 30, 1991. The Commission chose to establish a simplified employee-retirement plan (SEP) whereby the Commission deposits an amount equal to 7.50% of FICA wages. Under a SEP, an individual retirement account (IRA) is set up for each participating employee and contributions are made directly into that IRA.

All employees 21 years of age or older who have been employed one year or more are covered under the plan, and eligible employee's benefits vest 100% upon meeting the above requirements.

Total pension expense recorded by the Commission for contributions to the retirement plan for the year ended December 31, 2003, 2002, and 2001 was \$19,449, \$19,759, and \$20,110 respectively. Total gross salaries of the Commission for the year ended December 31, 2003, 2002, and 2001 was approximately \$259,233, \$264,479, and \$267,015 respectively.

NOTE 8 RETAINED EARNINGS RESERVED FOR MAINTENANCE

Funds collected in excess of special assessment debt have been reserved for maintenance of the sewerage systems of the properties assessed.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Mandates by the Environmental Protection Agency and the Louisiana Department of Environmental Quality require that the Commission upgrade its treatment facility to comply with stricter discharge requirements. The Commission currently has a contract with Louisiana State University to monitor and prepare a Use Attainability Analysis of Long-term Wastewater Discharge on the Ramos Forested Wetland at Amelia, Louisiana. The analysis was issued in January 1997, and conclusions regarding uses, criteria and regulatory issues will be supplied by the Louisiana Department of Environmental Quality after review of the analysis. The Commission estimates that to achieve compliance with the new mandates will cost approximately \$100,000 to \$250,000.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Commission and the St. Mary Parish Council have entered into an agreement between the Commission and the Council to provide full ownership of the regional sewerage treatment facilities in the Amelia area, Ward 9 and a portion of Ward 6, which is currently being operated by the Commission. The Commission has agreed to acquire the sewerage treatment facilities at a price equal to the difference between the yearly principal and interest bond payments allocable to the sewer area and the amount of the $\frac{3}{4}$ cents sales tax allocated to the Amelia and Vicinity Sewer area for the period December 1997-2004. Obligations for the bond shortfall for the years ended December 31, 2001 and 2002 have been met. Obligation for the bond shortfall for the year ended December 31, 2003 is \$104,124.

Future principal and interest bond payments are as follows:

2004	<u>\$ 246,795</u>
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Net assets will be reduced by the amount of the annual net bond payment.

NOTE 10 RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission has elected to purchase insurance coverage through the commercial insurance market to cover its exposure to loss. The Commission is insured up to policy limits for each of the above risks. There were no significant changes in coverage's, retentions or limits during the year ended December 31, 2003. Settled claims have not exceeded the commercial coverage's in any of the previous three fiscal years.

NOTE 11 CHANGES IN ACCOUNTING PRINCIPLE

The St. Mary Parish Water and Sewer Commission No. 1 adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis-For State and Local Governments; Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, as of January 1, 2003. This results in a change in format and content of the basic financial statements.

**SUPPLEMENTAL
INFORMATION**

**INTERNAL CONTROL
AND
COMPLIANCE**



(A Corporation of Certified Public Accountants)

Eugene H. Darnall, CPA, Retired 1990
Paula D. Bihm, CPA Deceased 2002

E. Larry Sikes, CPA, CVA, CFP™
Danny P. Frederick, CPA
Clayton E. Darnall, CPA, CVA
Eugene H. Darnall, III, CPA
Stephanie M. HigginBotham, CPA
John P. Armato, CPA
Jennifer S. Ziegler, CPA, CFP™
Chris A. Miller, CPA, CVA
Stephen R. Dischler, MBA, CPA
Steven G. Moosa, CPA

Erich G. Loewer, Jr. CPA

Kathleen T. Darnall, CPA
Erich G. Loewer, III, MTX CPA
Tamera T. Landry, CPA
Raegan D. Maggio, CPA
Barbara A. Clark, CPA
Monica F. Laverne, CPA
Lauren F. Verrett, CPA
Michelle B. Borrello, CPA
Jeremy C. Meaux, CPA
Kevin S. Young, CPA
Barbara Ann Watts, CPA
Adam J. Curry, CPA

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

The Board of Supervisors
St. Mary Parish Water and Sewer Commission No. 1
Parish of St. Mary, State of Louisiana
Amelia, Louisiana

We have audited the financial statements of St. Mary Parish Water and Sewer Commission No. 1 of the Parish of St. Mary, State of Louisiana (the Commission), a component unit of the St. Mary Parish Council, as of December 31, 2003 and for the year then ended, and have issued our report thereon dated February 23, 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, and the Louisiana Governmental Audit Guide.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission'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 one certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2003-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described as 2003-1 is a material weakness.

This report is intended for the information of management, the St. Mary Parish Council, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Dannall, Sikes & Frederick
A Corporation of Certified Public Accountants

Morgan City, Louisiana
February 23, 2004

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Summary Schedule of Prior Year Findings
Year Ended December 31, 2003

2002-1 Finding: Inadequate Segregation of Accounting Functions
 Status: This finding is unresolved. See current year finding 2003-1.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

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

Part 1: Summary of Auditor's Results

FINANCIAL STATEMENTS

Auditor's Report – Financial Statements

An unqualified opinion has been issued on St. Mary Parish Water and Sewer Commission No. 1's financial statements as of and for the year ended December 31, 2003.

Reportable Conditions – Financial Statements

One reportable condition in internal control over financial reporting was disclosed during the audit of the financial statements and is shown as item 2003-1 in Part 2 and is a considered material weakness.

Material Noncompliance – Financial Reporting

There were no material instances of noncompliance noted during the audit of the financial statements.

FEDERAL AWARDS

This section is not applicable for the year ended December 31, 2003.

Part 2: Findings Relating to an Audit in Accordance with *Governmental Auditing Standards*

2003-1 Inadequate Segregation of Accounting Functions

Finding:

Due to the small number of accounting personnel, the St. Mary Parish Water and Sewer Commission No. 1 did not have adequate segregation of functions within the accounting systems.

Recommendation:

Based upon the size of the operation and the cost benefit of additional personnel it may not be feasible to achieve complete segregation of duties.

Part 3: Findings and Questioned Costs Relating to Federal Programs

At December 31, 2003, the St. Mary Parish Water and Sewer Commission No. 1 did not meet the requirements to have a single audit in accordance with OMB Circular A-133; therefore this section is not applicable.

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA**

**Management's Corrective Action Plan For Current Year Findings
Year Ended December 31, 2003**

Response to Finding 2003-1:

No response is considered necessary.

OTHER SUPPLEMENTARY INFORMATION

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Schedule of Number of Utility Customers
(Unaudited)
December 31, 2003 and 2002

Records maintained by the Commission indicated the following number of water customers were being served during the month of December:

2002	1098
2003	1124

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA**

**List of Insurance Policies in Force
(Unaudited)
December 31, 2003**

	<u>Expiration Date</u>	<u>Coverage</u>
Property and office building:		
Four water storage towers (80% co-insurance clause)	July 5, 2004	\$ 1,400,000
Water treatment facilities (80% co-insurance clause)		
Buildings (combined)	April 1, 2004	\$ 2,735,000
Contents	April 1, 2004	\$ 65,000
Steel Generator	April 1, 2004	\$ 55,500
Public officials' and employees' liability	June 30, 2004	\$ 2,000,000
Public employee dishonesty	September 14, 2004	\$ 50,000
Liability:		
General Liability		
Each occurrence limit	June 30, 2004	\$ 2,000,000
General aggregate limit	June 30, 2004	\$ 2,000,000
Commercial Umbrella		
Each occurrence limit	June 30, 2004	\$ 2,000,000
General aggregate limit	June 30, 2004	\$ 2,000,000
Auto - combined single limit	April 4, 2004	\$ 1,000,000

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Schedule of Compensation Paid to the Board of Commissioners
Year Ended December 31, 2003

	<u>Number of Meetings Attended</u>	<u>Total Compensation</u>
Roland H. Verret, President	16	\$ 960
Donald Patureau, Vice President	17	1,020
Sandra Wilkerson, Secretary/Treasurer	17	1,020
Errol Tabor, Commissioner	18	1,080
Shirley Bailey, Commissioner	18	1,080
John Richard, Commissioner	17	1,020
Jeff Reed, Commissioner	18	<u>1,080</u>
		<u>\$ 7,260</u>