

RECEIVED
LEGISLATIVE AUDITOR
04 JUL -1 AM 11:45

Financial Report

St. Bernard Parish Government

**Department of Public Works
Water and Sewer Division
and the Districts**

Chalmette, Louisiana

December 31, 2003



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

Release Date 8-4-04

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
TABLE OF CONTENTS
DECEMBER 31, 2003**

	<u>Page Number</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL SECTION	
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	11
Fund Financial Statements:	
Statement of Net Assets	12
Statement of Revenues, Expenses and Changes in Fund Net Assets	14
Statement of Cash Flows	15
Notes to the Financial Statements	17
OTHER SUPPLEMENTAL INFORMATION	
Nonmajor Enterprise Funds:	
Nonmajor Enterprise Fund Descriptions	32
Combining Statement of Net Assets	33
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	34
Combining Statement of Cash Flows	35
Schedule of Annual Debt Service Requirements	36
Schedule of Computation of the Ratio of Net Revenues (Excluding Water and Sewer Districts) to Average Annual Debt Service Requirement	37
Schedule of Metered Customers (Unaudited)	38

ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
TABLE OF CONTENTS (CONTINUED)
DECEMBER 31, 2003

Page
Number

SPECIAL REPORT SECTION

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39
Schedule of Findings.....	41
Summary Schedule of Prior Audit Findings	42
Management's Corrective Action Plan	44

REBOWE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
CONSULTANTS

A PROFESSIONAL CORPORATION

3501 N. Causeway Blvd. • Suite 810 • P.O. Box 6952 • Metairie, LA 70009
Phone (504) 837-9116 • Fax (504) 837-0123 • E-mail rebowe@rebowe.com

INDEPENDENT AUDITOR'S REPORT

To the St. Bernard Parish Council,
Chalmette, Louisiana

We have audited the accompanying financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts (the "Division"), component units of the St. Bernard Parish Government, State of Louisiana, as of and for the year ended December 31, 2003, which collectively comprise the Division's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express opinions 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 basic 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, each major fund and the aggregate remaining fund information for the Division 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 June 21, 2004 on our consideration of the Division's internal control over financial reporting and on our test 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.

As described in Note 1g to the financial statements, the Division adopted the provision of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Statement No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and Statement No. 38 - *Certain Financial Statement Note Disclosures* as of January 1, 2003. These new accounting standards result in a change in the format and content of the financial statements.

The Management's Discussion and Analysis on pages 3 through 8 are not a required part of the basic financial statements but are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The combining nonmajor fund financial statements and the supplemental schedules on pages 32 through 38 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and the supplemental schedules on pages 32 through 38, except for the Schedule of Metered Customers marked "Unaudited" on which we express no opinion, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Rebowe & Company

June 21, 2004

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2003**

As management of the St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts (the Division), we offer readers of the Division's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with the Division's financial statements and the notes to the financial statements.

Financial Highlights

- The assets of the Division exceeded its liabilities at the close of the most recent fiscal year by \$34,870,310 (net assets). Of this amount, \$45,145 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Division's total net assets increased by \$2,366,464. The increase is not as high as it had been in previous years due to increased operating expenses and fewer grant revenues in the current year.
- Operating revenues decreased by 6.45% as a result of a reduction in fees billed for water, installations, and inspections. Operating expenses increased by 16.35% mainly due to higher utility bills and an increase in contractual services and supplies.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Division's basic financial statements. The Division's financial statements comprise three components: 1) government-wide financial statements, 2) proprietary fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Division's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Division's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Division is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Division's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected billings and earned but unused vacation leave).

The business-type activities of the Division are conducted through the St. Bernard Parish Government Department of Public Works and they include water and sewer operations. The Division has no component units.

The government-wide financial statements can be found on pages 9 through 11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Division, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Division uses only enterprise fund types of proprietary funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Division uses enterprise funds to account for its water and sewer operations.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2003**

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Division and Water District No. 1, which are considered to be major funds of the Division. Conversely, all other District funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the District funds is provided in the form of *combining statements* elsewhere in the report.

The basic proprietary fund financial statements can be found on pages 12 through 16 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 31.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *other supplemental information*, including schedules of annual debt service requirements and of the computation of the ratio of net revenues to average annual debt service requirement.

The combining statements referred to earlier in connection with nonmajor proprietary funds are also presented as part of other supplemental information. Combining statements and schedules can be found on pages 32 through 38 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by \$34,870,310 at the close of the most recent fiscal year.

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division and the Districts
Table 1
Net Assets**

	<u>Business-type Activities</u>	
	<u>2003</u>	<u>2002</u>
Current and other assets	\$ 17,939,895	\$ 20,104,496
Capital assets	35,056,143	30,739,687
Total assets	<u>52,996,038</u>	<u>50,844,183</u>
Long-term liabilities	11,260,643	12,626,628
Other liabilities	6,865,085	5,713,709
Total liabilities	<u>18,125,728</u>	<u>18,340,337</u>
Net assets:		
Invested in capital assets, net of related debt	23,065,669	16,509,687
Restricted	11,759,496	12,030,029
Unrestricted	45,145	3,964,130
Total net assets	<u>\$ 34,870,310</u>	<u>\$ 32,503,846</u>

By far the largest portion of the Division's net assets (66 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and pipe line systems), less any related debt used to acquire those assets that is still outstanding. The Division uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Division's investment in its capital is reported net of related debt, it

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2003**

should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Division's net assets (34 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$45,145) may be used to meet government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Division is able to report positive balances in all three categories of net assets.

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division and the Districts
Table 2
Changes in Net Assets**

	<u>Business-type Activities</u>	
	<u>2003</u>	<u>2002</u>
Operating revenues	\$ 9,733,241	\$ 10,403,991
Operating expenses	<u>10,983,434</u>	<u>9,439,722</u>
Operating income (loss)	<u>(1,250,193)</u>	<u>964,269</u>
Nonoperating revenues (expenses)		
Ad valorem and sales taxes	4,157,446	4,106,087
Other nonoperating revenues	347,207	1,883,110
Interest expense and bank fees	(723,439)	(846,946)
Deductions from taxes	<u>(164,557)</u>	<u>(163,042)</u>
Total nonoperating revenues (expenses)	<u>3,616,657</u>	<u>4,979,209</u>
Change in net assets	2,366,464	5,943,478
Total net assets, beginning of year	<u>32,503,846</u>	<u>26,560,368</u>
Total net assets, end of year	<u>\$ 34,870,310</u>	<u>\$ 32,503,846</u>

The Division's total net assets increased by \$2,366,464. The increase is not as high as it had been in previous years due to increased operating expenses and fewer grant revenues in the current year. Operating and nonoperating revenues decreased by \$2,155,294. Operating and nonoperating expenses increased by \$1,421,720.

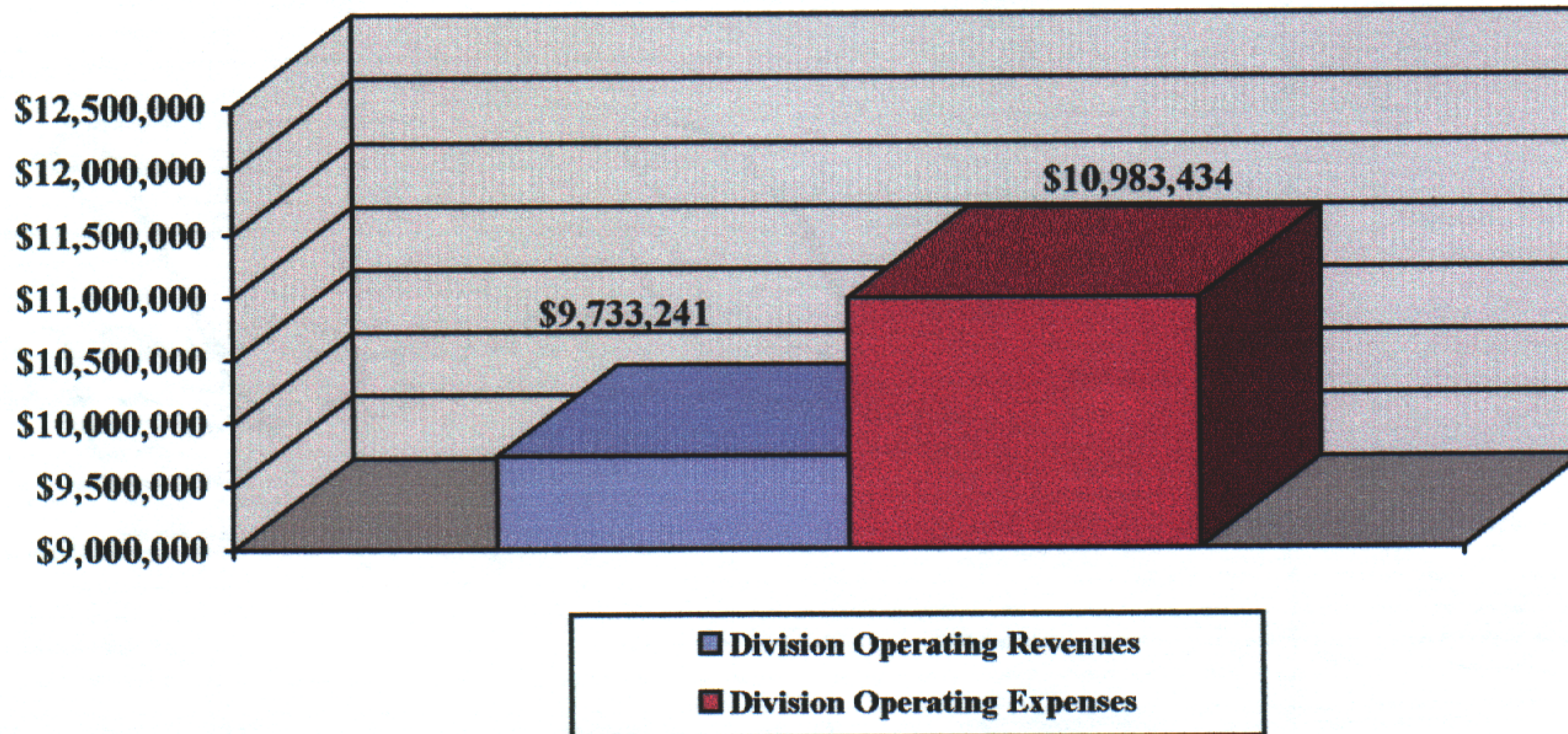
Business-type activities. Business-type activities increased the St. Bernard Parish Government's net assets by \$2,366,464, accounting for 100 percent of the total growth in the Division's net assets.

Key elements of this increase are as follows:

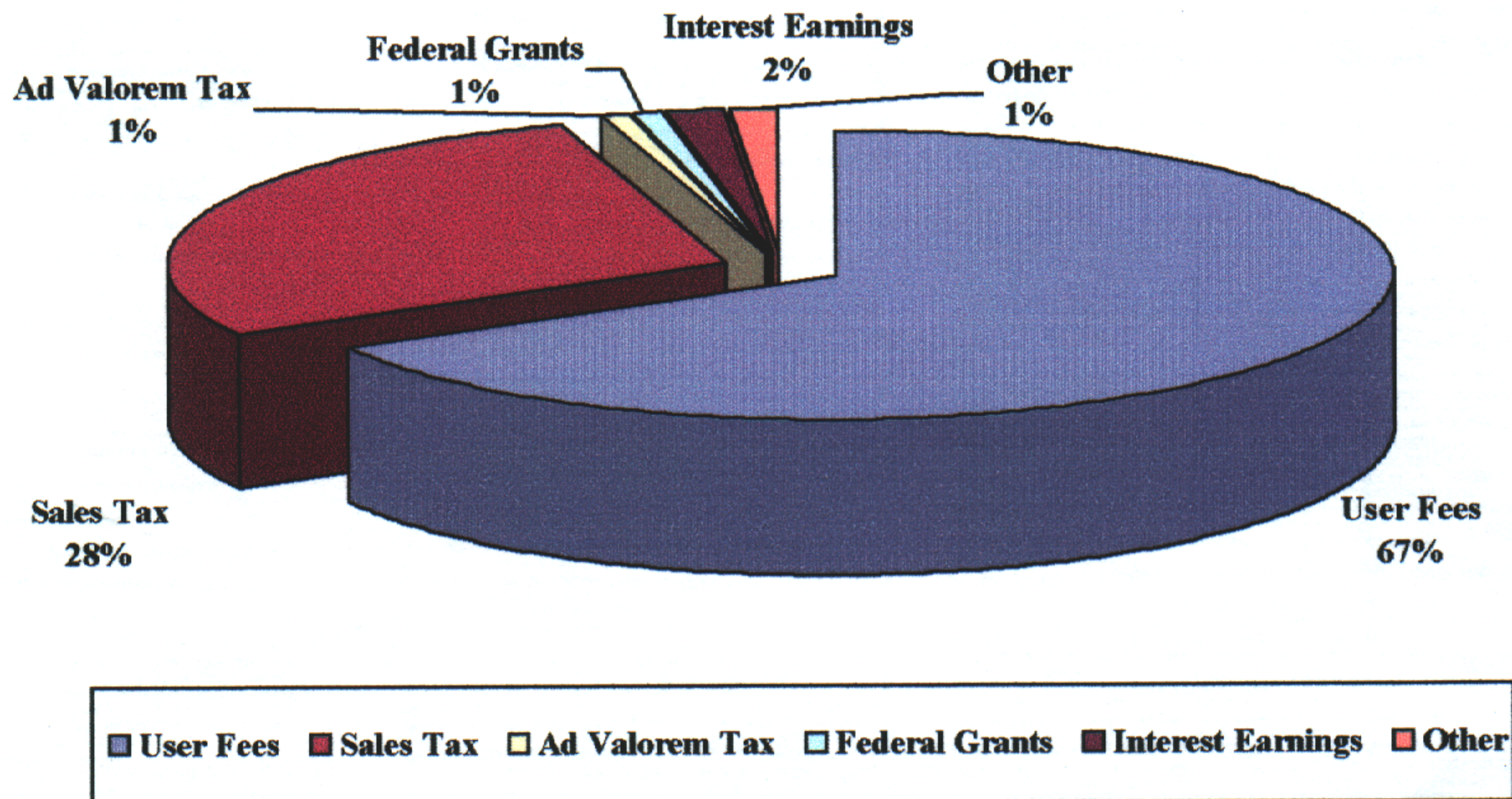
- Insurance and claims expense decreased by \$599,271.
- Depreciation and amortization expense decreased by approximately \$1,000,000.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2003**

Expenses and Program Revenues - Business Type Activities



Revenues by Source - Business Type Activities



Financial Analysis of the Government's Funds

Proprietary funds. The St. Bernard Parish Government's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Division and the Districts at the end of the year amounted to \$45,145. The total growth in net assets was \$2,366,464. The increase is not as high as it had been in previous years

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2003**

due to increased operating expenses and fewer grant revenues in the current year. Other factors concerning the finances of this fund have already been addressed in the discussion of the Division's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Division's investment in capital assets for its business type activities as of December 31, 2003, amounts to \$35,056,143 (net of accumulated depreciation). This investment in capital assets includes land; buildings; furniture, fixtures and equipment; machinery and equipment; and pipeline system.

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

- Re-evaluation of the Division's capitalization policy in conjunction with the adoption of GASB Statement No. 34. Changes made to the policy include adjusting the useful lives of the major asset classes and setting a higher capitalization threshold of \$5,000.
- The Division purchased 12 new vehicles for its fleet that replaced many trucks that were beyond their useful lives and in need of costly repairs.

Additional information on the Division's capital assets can be found in note 5 on page 23 of this report.

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division and the Districts
Table 3
Capital Assets
(net of depreciation)**

	<u>Business-type activities</u>	
	<u>2003</u>	<u>2002</u>
Land	\$ 177,286	\$ 177,286
Buildings	57,442,490	44,667,662
Furniture, fixtures and equipment	124,667	31,043
Machinery & equipment	1,293,245	954,485
Pipeline system	57,909,875	57,273,675
Construction in progress	<u>8,868,323</u>	<u>16,666,414</u>
Total capital assets	125,815,886	119,770,565
Less accumulated depreciation	<u>(90,759,743)</u>	<u>(89,030,878)</u>
Total capital assets, net	<u>\$ 35,056,143</u>	<u>\$30,739,687</u>

Long-term debt. At the end of the current fiscal year, the Division had total debt outstanding of \$12,590,000. Of this amount, \$350,000 comprises debt backed by the full faith and credit of the government and \$12,240,000 represents bonds secured solely by specified revenue sources (i.e., revenue bonds and sales tax bonds).

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2003**

**St. Bernard Parish Government
Department of Public Works
Water and Sewer Division and the Districts
Table 4
Outstanding Debt**

	Business-type activities	
	<u>2003</u>	<u>2002</u>
General obligation bonds	\$ 350,000	\$ 775,000
Sales tax bonds	8,740,000	9,070,000
Revenue bonds	<u>3,500,000</u>	<u>4,385,000</u>
Total	<u>\$ 12,590,000</u>	<u>\$ 14,230,000</u>

The Division's total debt decreased by \$1,640,000 (12 percent) during the current fiscal year. The decrease is the result of the Division making scheduled principal payments on the outstanding debt.

Additional information on the Parish's long-term debt can be found in note 10 on pages 25 through 28 of this report.

Economic Factors and Next Year's Rates

- The unemployment rate for the Parish is currently 6.7 percent, which is an increase from a rate of 6.1 percent in June 2003. This approximates the change in the state's unemployment rate and the national average rate.
- The Water and Sewer Division has not increased rates since 1997 and did not propose a rate increase for 2004.

As a proprietary fund type, the Division is not required to adopt a budget. It is anticipated that the positive unrestricted net assets will avoid the need to raise taxes or charges during the 2004 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Division'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 the Department of Finance, 8201 W. Judge Perez Drive, Chalmette, LA 70043.

BASIC FINANCIAL STATEMENTS

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
STATEMENT OF NET ASSETS
DECEMBER 31, 2003**

	Business-type Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 146,452
Customer receivables (net of allowance for doubtful accounts of \$249,881)	477,336
Unbilled charges	759,912
Grant receivables	61,195
Due from primary government	27,811
Due from other funds	94,078
Prepaid Expenses	39,983
Inventory	154,663
	1,761,430
Subtotal	
	1,761,430
Restricted Assets:	
Cash and cash equivalents:	
Revenue bond debt service reserve	1,440,668
Revenue bond debt service account	646,825
Capital renewal and replacement and system improvements accounts	4,423,598
Sales tax bond debt service reserve	965,073
Sales tax bond debt service account	2,040,171
Construction fund	1,437,348
Inflow and infiltration	3,436,675
Other debt service accounts	411,067
Customer meter deposits	585,715
Sales tax receivable	662,819
Ad valorem taxes receivable (net of allowance for doubtful accounts of \$4,573)	128,506
Total restricted assets	16,178,465
Total current assets	17,939,895
Capital assets (net of accumulated depreciation)	35,056,143
Total assets	52,996,038

(Continued)

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
STATEMENT OF NET ASSETS (CONTINUED)
DECEMBER 31, 2003**

	<u>Business-type Activities</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 1,307,064
Salaries payable	43,154
Retainage payable	399,251
Due to primary government	2,108,715
Due to other funds	94,078
Total current liabilities	<u>3,952,262</u>
Current liabilities payable from restricted assets:	
Accrued interest payable	123,306
Customer deposits	1,326,217
Inspection deposits	13,300
Total current liabilities payable from restricted assets	<u>1,462,823</u>
Noncurrent liabilities:	
Due within one year	1,708,136
Due in more than one year	11,002,507
Total noncurrent liabilities	<u>12,710,643</u>
Total liabilities	<u>18,125,728</u>
NET ASSETS	
Invested in capital assets, net of related debt	23,065,669
Restricted for:	
Capital renewal and replacement and system improvements	5,030,391
Debt service	3,126,725
Inflow and infiltration	3,602,380
Unrestricted	45,145
Total net assets	<u>\$ 34,870,310</u>

The notes to the financial statements are an integral part of this statement.

ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Business-type activities:				
Water and sewer	\$ 11,147,991	\$ 9,733,241	\$ 121,225	\$ -
Interest on long-term debt	723,439	-	-	(723,439)
Total business-type activities	<u>\$ 11,871,430</u>	<u>\$ 9,733,241</u>	<u>\$ 121,225</u>	<u>\$ (2,016,964)</u>
General Revenues:				
Taxes:				
Property				136,652
Sales				4,020,794
Unrestricted investment earnings				225,982
Total general revenues				<u>4,383,428</u>
Change in Net Assets				2,366,464
Net assets - beginning, restated				<u>32,503,846</u>
Net assets - ending				<u>\$ 34,870,310</u>

The notes to the financial statements are an integral part of this statement.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2003**

	Business-type Activities - Enterprise Funds			Total
	Water and Sewer Division	Water District No. 1	Other Enterprise Funds	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 146,452	\$ -	\$ -	\$ 146,452
Customer receivables (net of allowance for doubtful accounts of \$249,881)	477,336	-	-	477,336
Unbilled charges	759,912	-	-	759,912
Grant receivables	61,195	-	-	61,195
Due from primary government	27,811	-	-	27,811
Due from other funds	-	-	94,078	94,078
Prepays	39,983	-	-	39,983
Inventory	154,663	-	-	154,663
Restricted Assets:				
Cash and cash equivalents:				
Revenue bond debt service reserve	1,440,668	-	-	1,440,668
Revenue bond debt service account	646,825	-	-	646,825
Capital renewal and replacement and system improvements accounts	4,423,598	-	-	4,423,598
Sales tax bond debt service reserve	965,073	-	-	965,073
Sales tax bond debt service account	2,040,171	-	-	2,040,171
Construction fund	1,437,348	-	-	1,437,348
Inflow and infiltration	3,436,675	-	-	3,436,675
Other debt service accounts	-	89,731	321,336	411,067
Customer meter deposits	585,715	-	-	585,715
Sales tax receivable	662,819	-	-	662,819
Ad valorem taxes receivable (net of allowance for doubtful accounts of \$4,573)	-	-	128,506	128,506
Total restricted assets	<u>15,638,892</u>	<u>89,731</u>	<u>449,842</u>	<u>16,178,465</u>
Total current assets	<u>17,306,244</u>	<u>89,731</u>	<u>543,920</u>	<u>17,939,895</u>
Capital assets (net of accumulated depreciation)	<u>35,056,143</u>	<u>-</u>	<u>-</u>	<u>35,056,143</u>
Total assets	<u>52,362,387</u>	<u>89,731</u>	<u>543,920</u>	<u>52,996,038</u>

(Continued)

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (CONTINUED)
DECEMBER 31, 2003**

	Business-type Activities - Enterprise Funds			Total
	Water and Sewer Division	Water District No. 1	Other Enterprise Funds	
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 1,307,064	\$ -	\$ -	\$ 1,307,064
Salaries payable	43,154	-	-	43,154
Retainage payable	399,251	-	-	399,251
Due to primary government	2,108,715	-	-	2,108,715
Due to other funds	25,425	68,653	-	94,078
Total current liabilities	3,883,609	68,653	-	3,952,262
Current liabilities payable from restricted assets:				
Bonds payable	1,270,000	-	180,000	1,450,000
Accrued interest payable	115,578	-	7,728	123,306
Customer deposits	1,326,217	-	-	1,326,217
Inspection deposits	13,300	-	-	13,300
Total current liabilities payable from restricted assets	2,725,095	-	187,728	2,912,823
Noncurrent liabilities:				
Accrued vacation leave	258,136	-	-	258,136
Bonds payable, net of unamortized debt expense	10,845,237	-	157,270	11,002,507
Total noncurrent liabilities	11,103,373	-	157,270	11,260,643
Total liabilities	17,712,077	68,653	344,998	18,125,728
NET ASSETS				
Invested in capital assets, net of related debt	23,065,669	-	-	23,065,669
Restricted for:				
Capital renewal and replacement and system improvements	5,009,313	21,078	-	5,030,391
Debt service	2,927,803	-	198,922	3,126,725
Inflow and infiltration	3,602,380	-	-	3,602,380
Unrestricted	45,145	-	-	45,145
Total net assets	\$ 34,650,310	\$ 21,078	\$ 198,922	\$ 34,870,310

The notes to the financial statements are an integral part of this statement.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Business-type Activities - Enterprise Funds			Total
	Water and Sewer Division	Water District No. 1	Other Enterprise Funds	
OPERATING REVENUES				
Charges for services	\$ 9,531,531	\$ -	\$ -	\$ 9,531,531
Other operating revenues	201,710	-	-	201,710
Total operating revenues	<u>9,733,241</u>	<u>-</u>	<u>-</u>	<u>9,733,241</u>
OPERATING EXPENSES				
Personal services and related benefits	2,647,481	-	-	2,647,481
Utilities	1,277,732	-	-	1,277,732
Contractual services, supplies, and materials	3,198,266	-	-	3,198,266
Professional services	1,120,243	-	-	1,120,243
Insurance and claims expense	630,782	-	-	630,782
Depreciation and amortization	1,778,698	-	11,443	1,790,141
Other	318,789	-	-	318,789
Total operating expenses	<u>10,971,991</u>	<u>-</u>	<u>11,443</u>	<u>10,983,434</u>
Operating loss	<u>(1,238,750)</u>	<u>-</u>	<u>(11,443)</u>	<u>(1,250,193)</u>
NONOPERATING REVENUES (EXPENSES)				
Sales tax	4,020,794	-	-	4,020,794
Ad valorem tax for debt retirement	-	-	136,652	136,652
Interest earnings:				
Restricted assets	219,075	1,145	4,699	224,919
Current assets	1,063	-	-	1,063
Interest expense and bank fees	(695,792)	-	(27,647)	(723,439)
Federal grants	121,225	-	-	121,225
Deductions from taxes	(160,645)	-	(3,912)	(164,557)
Total nonoperating revenues (expenses)	<u>3,505,720</u>	<u>1,145</u>	<u>109,792</u>	<u>3,616,657</u>
Income before transfers	2,266,970	1,145	98,349	2,366,464
Transfers in	-	-	25,425	25,425
Transfers out	<u>(25,425)</u>	<u>-</u>	<u>-</u>	<u>(25,425)</u>
Change in net assets	2,241,545	1,145	123,774	2,366,464
Total net assets - beginning, restated	<u>32,408,765</u>	<u>19,933</u>	<u>75,148</u>	<u>32,503,846</u>
Total net assets - ending	<u>\$ 34,650,310</u>	<u>\$ 21,078</u>	<u>\$ 198,922</u>	<u>\$ 34,870,310</u>

The notes to the financial statements are an integral part of this statement.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Business-type Activities - Enterprise Funds			Total
	Water and Sewer Division	Water District No. 1	Other Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ 8,801,442	\$ -	\$ -	\$ 8,801,442
Payments to suppliers	(6,024,182)	-	(21)	(6,024,203)
Payments to employees	(2,636,114)	-	-	(2,636,114)
Other operating receipts	201,710	-	-	201,710
Receipts from and payments to primary government	753,526	-	-	753,526
Net cash provided (used) by operating activities	<u>1,096,382</u>	<u>-</u>	<u>(21)</u>	<u>1,096,361</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Receipts from ad valorem taxes - debt retirement	-	-	157,827	157,827
Payments for deductions for taxes	(160,645)	-	(3,912)	(164,557)
Receipts from sales taxes	4,675,103	-	-	4,675,103
Proceeds from federal grants	1,507,314	-	-	1,507,314
Acquisition and construction of capital assets	(6,070,746)	-	-	(6,070,746)
Principal paid on capital debt	(1,215,000)	-	(425,000)	(1,640,000)
Interest paid on capital debt	(715,522)	-	(36,997)	(752,519)
Net cash used by capital financing activities	<u>(1,979,496)</u>	<u>-</u>	<u>(308,082)</u>	<u>(2,287,578)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on cash management activities	220,138	1,145	4,699	225,982
Net cash provided by investing activities	<u>220,138</u>	<u>1,145</u>	<u>4,699</u>	<u>225,982</u>
Net increase (decrease) in cash and cash equivalents	(662,976)	1,145	(303,404)	(965,235)
Cash and cash equivalents - beginning	<u>15,785,501</u>	<u>88,586</u>	<u>624,740</u>	<u>16,498,827</u>
Cash and cash equivalents - ending	<u>\$ 15,122,525</u>	<u>\$ 89,731</u>	<u>\$ 321,336</u>	<u>\$ 15,533,592</u>

(Continued)

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Business-type Activities - Enterprise Funds			Total
	Water and Sewer Division	Water District No. 1	Other Enterprise Funds	
Classified as:				
Cash and cash equivalents	\$ 146,452	\$ -	\$ -	\$ 146,452
Restricted cash and cash equivalents:				
Revenue bond debt service reserve	1,440,668	-	-	1,440,668
Revenue bond debt service account	646,825	-	-	646,825
Capital renewal and replacement and system improvements accounts	4,423,598	-	-	4,423,598
Sales tax bond debt service reserve	965,073	-	-	965,073
Sales tax bond debt service account	2,040,171	-	-	2,040,171
Construction fund	1,437,348	-	-	1,437,348
Inflow and infiltration	3,436,675	-	-	3,436,675
Other debt service accounts	-	89,731	321,336	411,067
Customer meter deposits	585,715	-	-	585,715
Totals	\$ 15,122,525	\$ 89,731	\$ 321,336	\$ 15,533,592
Reconciliation of operating loss to net cash provided (used) by operating activities:				
Operating loss	\$ (1,238,750)	\$ -	\$ (11,443)	\$ (1,250,193)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation and amortization	1,778,698	-	11,443	1,790,141
Increase in receivables	(620,997)	-	-	(620,997)
Increase in unbilled charges	(109,092)	-	-	(109,092)
Increase in inventory	(16,758)	-	-	(16,758)
Increase in prepaid expenses	(1,526)	-	-	(1,526)
Increase in due to (from) other funds	753,526	-	-	753,526
Increase in accounts payable and other accruals	551,281	-	(21)	551,260
Total adjustments	2,335,132	-	11,422	2,346,554
Net cash provided (used) by operating activities	\$ 1,096,382	\$ -	\$ (21)	\$ 1,096,361

The notes to the financial statements are an integral part of this statement.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Division consists of two water plants that monitor and maintain 110 sewer lift stations. It also operates four sewerage treatment plants, one sewerage oxidation pond, and two sewerage treatment package plants. The Division has 90 employees at December 31, 2003, of which a majority are covered by a collective bargaining agreement which expires in July 2004, with a one year renewal option.

The accounting policies of the Division conform to generally accepted accounting principles (GAAP) applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant accounting policies.

a) Financial Reporting Entity

Government Accounting Standards Board (GASB) Statement No. 14 has established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship between the primary government and the other organization. In addition, an organization which is fiscally dependent on the primary government or has a potential to provide specific financial benefits to the primary government should be included in the reporting entity.

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

Annually, the St. Bernard Parish Government issues audited financial statements which include the activity contained in the accompanying financial statements.

ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Basis of Presentation

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

c) Fund Accounting

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

The financial statements are very similar to the traditional enterprise fund statements as presented by governments prior to the issuance of GASB 34. Emphasis is now on the major funds. Non-major funds are summarized into a single column.

The two enterprise funds reported as major funds in the financial statements are as follows:

The *Water and Sewer Division Fund* is used to account for the water and sewerage operation of the Parish and the Districts. Revenues are derived from user fees and a ½% sales tax.

The *Water District No.1 Fund* is used to levy ad valorem taxes for the retirement of outstanding bonds. This fund does not meet the criteria for classification as a major fund; however, management elected to treat it as a major fund.

d) Basis of Accounting and Measurement Focus

All enterprise funds are accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (revenues) and decreases (expenses) in net total assets. Enterprise funds are maintained on the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable.

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

e) Budgetary Accounting

The Division adopted annual budgets for the Enterprise Funds. Budgets for the Enterprise Funds are used as a management tool only and are not included in the basic financial statements. All appropriations, except an appropriation for a capital expenditure, will lapse at year end to the extent that they have not been expended or encumbered. The Parish President is authorized to transfer amounts between line items within any fund.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Assets, Liabilities, and Fund Equity

CASH AND CASH EQUIVALENTS

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

RESTRICTED ASSETS

Certain proceeds of the Division's revenue bonds, and sales tax bonds as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

RECEIVABLES

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

The Division has established allowances for doubtful accounts for write-off of delinquent accounts relating to customer receivables and ad valorem taxes receivable. The allowances are based on management's best estimate of uncollectible amounts. The allowances for doubtful accounts at December 31, 2003 are \$249,881 for customer receivables and \$4,573 for ad valorem taxes receivable.

INVENTORY

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

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are reported as "due to/from other funds."

CAPITAL ASSETS

Capital assets of the Division are included on the Statement of Net Assets of the funds, net of accumulated depreciation. Depreciation of all exhaustible fixed assets is charged as an expense against operations.

Capitalization thresholds are defined by the Division as assets with an initial, individual cost of more than \$5,000. All assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, primarily water and sewer lines constructed by independent contractors, are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add value to the asset or materially extend its useful life are not capitalized. Major outlays for capital assets and improvements are capitalized at completion of construction projects. Interest incurred during the construction phase of capital assets and improvements of business-type activities is capitalized.

Depreciation on all capital assets, excluding land and land improvements and construction in progress, is calculated on the straight-line method over the following estimated useful lives:

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Assets, Liabilities, and Fund Equity (Continued)

CAPITAL ASSETS (Continued)

<u>Type of Capital Assets</u>	<u>No. of Years</u>
Buildings and improvements	7-40
Furniture, fixtures, and equipment	5-10
Machinery and equipment	5-20
Water and sewerage systems	25
Canals	30-50
Road system	20-50

LONG-TERM DEBT

On the Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities. Bond premiums, discounts, and issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and issuance costs.

Unamortized debt expense of the Division is comprised of costs associated with the 1994 and 2001 Revenue Bond Issues and the 1999 Sales Tax Bond Issue, and the deferred loss on the early retirement of 1991 Revenue Bonds. The cost of issuance on the 1994 Revenue Bond Issue of \$266,655 is amortized using the straight-line method over the 12.3-year life of the bond. The cost of issuance on the 2001 Revenue Bond Issue of \$14,575 is amortized using the straight-line method over the 10-year life of the bond. The cost of the issuance on the 1999 Sales Tax Bond Issue of \$72,701 is amortized using the straight-line method over the 20-year life of the bond. The deferred loss of \$79,265 is amortized using the straight-line method over the 2-year remaining life of the old bonds. Unamortized debt expense of Sewer District No. 1 is comprised of costs associated with the 1991 General Obligation Refunding Bond Issue. The cost of issuance of \$36,700 is amortized using the straight-line method over the 11 year life of the bond. The cost of issuance was fully amortized at December 31, 2003. Unamortized debt expense of Sewer District No. 2 is comprised of costs associated with the 1991 General Obligation Refunding Bond Issue. The cost of issuance on the 1991 General Obligation Bond Issue of \$147,300 is amortized using the straight-line method over the 13-year life of the bond. Total amortization expense for the year ended December 31, 2003 was \$61,276.

COMPENSATED ABSENCES

Employees earn two to five weeks of paid vacation each year; up to 90 days will be paid in cash at retirement or termination if proper notice is given. If proper notice is not given, up to 10 days may be subtracted from their accumulated vacation and the remainder is paid in cash. Employees earn 12 days of sick leave each year, which may accumulate to a maximum number of 90 days. At December 31, 2003, the accrued vacation leave was \$258,136.

NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use by external parties such as creditors, grantors, contributors, laws or regulations of other governments. All other net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted" are reported as unrestricted.

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

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Assets, Liabilities, and Fund Equity (Continued)

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. Those estimates affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements. They may also affect the reported amounts of revenues and expenses of the proprietary funds and the government-wide financial statements during the reporting period. Actual results could differ from those estimates.

g) Adoption of New Accounting Principles

Governmental Accounting Standards Board (GASB) Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," provides that Proprietary Funds may apply all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements; Statements and Interpretations of the Financial Accounting Standard Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure. The Division has elected to apply only FASB, APB and ARB materials issued on or before November 30, 1989.

For the fiscal year ended December 31, 2003, the Division implemented the following GASB standards:

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*

Statement No. 38 - *Certain Financial Statement Note Disclosures*

NOTE 2 - CASH AND CASH EQUIVALENTS

State law requires the deposits (cash and certificates of deposits) of all political subdivisions be fully collateralized at all times. Acceptable collateralization includes FDIC insurance and the market value of securities purchased and pledged to the political subdivision. Obligations of the United States, the State of Louisiana, and certain political subdivisions are allowed as security for deposits. Obligations furnished as security must be held by the political subdivision, or with an unaffiliated bank, or with a trust company for the account of the political subdivision. In accordance with state law all cash and deposits were collateralized.

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

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

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

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

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

At December 31, 2003, the carrying amount and the bank balances of deposits of the Division and its Districts are as follows:

	Bank Balances Category			Book Balance
	1	2	3	
Cash	<u>\$ 100,000</u>	<u>\$ 15,677,317</u>	<u>\$ -</u>	<u>\$ 15,533,592</u>

There were no certificates of deposit at December 31, 2003.

At December 31, 2003, cash in excess of the FDIC insurance was collateralized by securities held by unaffiliated banks for the account of the depositors. The Governmental Accounting Standards Board (GASB), which promulgates the standards for accounting and financial reporting for state and local governments, considers these securities collateralized.

NOTE 3 - AD VALOREM TAXES

Ad valorem taxes are levied each November 1st on the assessed value listed as of the prior January 1st for all real property, merchandise and movable property located in the Parish. Assessed values are established by the St. Bernard Parish Assessor's Office and the State Tax Commission at percentages of actual value as specified by Louisiana law. A reevaluation of all property is required to be completed no less than every four years. The last reevaluation was completed for the list as of January 1, 2000. Taxes are due and payable November 15th of each year and become delinquent December 31st with interest being charged on payments after January 1st. Taxes can be paid through the tax sale date, which is the last Wednesday in June. Properties for which taxes have not been paid are sold.

The following is a summary of authorized and levied ad valorem taxes for debt service for the year ended December 31, 2003:

	Authorized Millage	Levied Millage
Sewer District No. 2	Variable	.75

NOTE 4 - SALES TAX

On November 3, 1998, the citizens of St. Bernard Parish, by a special election, approved a 1/2% sales tax, commencing January 1, 1999. The proceeds for this tax are dedicated for improvements to the sewer and water system of the Division, including authority to fund bonds with the tax, provided that at least 25% of the annual revenues of the sales tax must be expended to correct inflow and infiltration in sewerage collection lines, or to repair damage caused thereby, unless required for debt service on bonds or otherwise approved by at least two-thirds of the Council.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 5 - CAPITAL ASSESTS

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

	<u>12/31/2002</u> <u>As Restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2003</u>
Capital assets not being depreciated:				
Land	\$ 177,286	\$ -	\$ -	\$ 177,286
Construction in progress	<u>16,666,414</u>	<u>5,565,933</u>	<u>13,364,024</u>	<u>8,868,323</u>
Total capital assets not being depreciated	<u>16,843,700</u>	<u>5,565,933</u>	<u>13,364,024</u>	<u>9,045,609</u>
Capital assets being depreciated:				
Buildings	44,667,662	12,774,828	-	57,442,490
Furniture, fixtures and equipment	31,043	93,624	-	124,667
Machinery and equipment	954,485	338,760	-	1,293,245
Pipeline system	<u>57,273,675</u>	<u>636,200</u>	<u>-</u>	<u>57,909,875</u>
Total capital assets being depreciated	<u>102,926,865</u>	<u>13,843,412</u>	<u>-</u>	<u>116,770,277</u>
Less accumulated depreciation	<u>89,030,878</u>	<u>1,728,865</u>	<u>-</u>	<u>90,759,743</u>
Total capital assets being depreciated, net	<u>13,895,987</u>	<u>12,114,547</u>	<u>-</u>	<u>26,010,534</u>
Total business-type activities capital assets, net	<u>\$ 30,739,687</u>	<u>\$ 17,680,480</u>	<u>\$ 13,364,024</u>	<u>\$ 35,056,143</u>

All capital assets of the Districts are reported with the Division.

Depreciation expense totaled \$1,728,865 for the year ended December 31, 2003.

NOTE 6 - INTERFUND PAYABLES, RECEIVABLES AND TRANSFERS

a) The composition of due to/from other funds as of December 31, 2003, was as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
Non-major business-type funds	Water and Sewer Division	\$ 25,425
	Water District No. 1	<u>68,653</u>
		<u>\$ 94,078</u>

b) The composition of interfund transfer as of December 31, 2003, was as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Non-major business-type funds	Water and Sewer Division	<u>\$ 25,425</u>

The interfund receivables, payables, and transfers were not eliminated in these financials statements, but were eliminated in the primary government financial statements.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 7 - OPERATING LEASES

The Water and Sewer Division receives lease income under the following agreements:

<u>Lease</u>	<u>Yearly Income</u>	<u>Lease Period</u>	<u>Beginning Date</u>	<u>Option</u>
Right-of-way agreement	\$2,500	10 years	September 1, 1995	Additional 10 year term
Tower lease #1	6,000	5 years	August 9, 1995	3 additional 5 year terms
Tower lease #2	7,200	5 years	June 26, 1996	3 additional 5 year terms
Tower lease #3	13,800	5 years	August 22, 1996	3 additional 5 year terms
Tower lease #4	13,200	5 years	November 19 1998	4 additional 3 year terms
Tower lease #5	12,500	5 years	July 28, 1998	4 additional 3 year terms
Tower lease #6	9,600	5 years	December 23, 1997	4 additional 3 year terms

The Division also granted the St. Bernard Parish School Board the use of property at St. Bernard Highway and Palmisano Boulevard free of rent for a period of thirty years. Total rental income for the year ended December 31, 2003 was \$64,800.

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

<u>Year Ending December 31,</u>	
2004	\$ 39,100
2005	30,300
2006	<u>21,000</u>
Total	<u>\$ 90,400</u>

The Water and Sewer Division is engaged in a lease agreement for a belt press located at the Dravo Wastewater Treatment Plant for \$1,500 a week. Rental expense for the year ended December 31, 2003 was \$73,900.

NOTE 8 - DEFINED BENEFIT PENSION PLAN

Employees of the Division are members of the Parochial Employees' Retirement System of Louisiana ("System"), a multiple-employer (cost sharing), public-employee retirement system (PERS). The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the Division are members of Plan A. For the year ended December 31, 2003, the total payroll for employees covered by the System under Plan A was \$2,249,201.

Plan Description - The Water and Sewer Division contributes to Plan A of the Parochial Employees' Retirement System of Louisiana, a cost-sharing multiple-employer defined benefit public employee retirement system (PERS), which is controlled and administered by a separate Board of Trustees. The System provides retirement, deferred and disability benefits, survivor's benefits and cost of living adjustments to plan members and beneficiaries. Act 205 of the 1952 Louisiana Legislative Session established the plan.

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

Funding Policy - Plan members are required to contribute 9.5% of their annual-covered salary and the Water and Sewer Division is required to contribute at an actuarially determined rate. The current rate is 7.75% of annual payroll. The contribution requirements of plan members and the Water and Sewer Division are established and may be amended by state statute. The Water and Sewer Division's contributions to the System for the years ended December 31, 2003, 2002, and 2001 were \$174,313, \$166,746, and \$205,137, respectively, equal to the required contributions for each year.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 9 - INTERGOVERNMENTAL RECEIVABLE AND PAYABLE

At December 31, 2003, the Division had a due from the primary government in the amount of \$27,811 that relate to monies due from the public works and fire department. At December 31, 2003, the Division had a due to the primary government in the amount of \$2,108,715 that primarily relates to payments owed the Parish for the self-insurance fund in which the Division participates.

NOTE 10 - LONG-TERM LIABILITIES

a. Summary of Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the Division for year ended December 31, 2003:

	Balance 1/1/2003	Additions	Reductions	Balance 12/31/2003	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 4,385,000	\$ -	\$ 885,000	\$ 3,500,000	\$ 925,000
Sales tax bonds	9,070,000	-	330,000	8,740,000	345,000
General obligation bonds	775,000	-	425,000	350,000	180,000
Less: deferred issuance costs	(198,769)	-	(61,276)	(137,493)	-
Compensated absences	235,397	22,739	-	258,136	258,136
Total long-term debt	<u>\$ 14,266,628</u>	<u>\$ 22,739</u>	<u>\$ 1,578,724</u>	<u>\$ 12,710,643</u>	<u>\$ 1,708,136</u>

b. Schedule of Bonds Payable

The following is a schedule of bonds payable for the Division at December 31, 2003:

	Interest Rate	Issue Date	Final Maturity Date	Original Issue	Outstanding
<u>Revenue bonds</u>					
Water and Sewer Division:					
1994 Revenue bonds	4.80-5.20	04/01/1994	08/01/2006	\$ 7,950,000	\$ 2,685,000
2001 Revenue bonds	4.89	07/31/2001	08/01/2011	950,000	815,000
Total revenue bonds				<u>8,900,000</u>	<u>3,500,000</u>
<u>Sales tax bonds</u>					
Water and Sewer Division:					
1999 Sales tax bonds	5.35	12/01/1999	12/01/2019	9,950,000	8,740,000
<u>General obligation bonds</u>					
Sewer District No. 1:					
1991 General obligation bonds	6.50	09/01/1991	03/01/2003	675,000	-
Sewer District No. 2:					
1991 General obligation bonds	6.50-6.65	09/01/1991	03/01/2005	3,295,000	350,000
Total general obligation bonds				<u>3,970,000</u>	<u>350,000</u>
Total bonds payable				<u>\$ 22,820,000</u>	<u>\$ 12,590,000</u>

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 10 - LONG-TERM LIABILITIES (CONTINUED)

c. Public Improvement and General Obligation Bonds

Public improvement and general obligation bonds are secured by the full faith and credit of the various Districts and are financed through the levy and collection of ad valorem taxes. The bonds were issued to construct improvements and extensions to the sewerage system. Public improvement and general obligation bonds are comprised of the following individual issues:

1. \$675,000 General Obligation Refunding Bonds of the Sewer District No. 1 issue of September 1, 1991, due in annual installments of \$85,000 to \$90,000 bearing interest rates of 6.4% to 6.5% through March 1, 2003. At December 31, 2003, these bonds were considered paid off.
2. \$3,295,000 General Obligation Refunding Bonds of the Sewer District No. 2 issue of September 1, 1991, due in annual installments of \$170,000 to \$340,000 bearing interest rates of 6.4% to 6.65% through March 1, 2005. The balance outstanding at December 31, 2003 was \$350,000.

d. Sales Tax Bonds

On December 1, 1999, \$9,950,000 of the 1999 Sales Tax Bonds was issued. The interest rate on the bonds is 5.35%, and the bonds mature on December 1, 2019 with debt service payments due in annual principal installments from \$345,000 to \$805,000. The balance outstanding at December 31, 2003 was \$8,740,000.

The bonds were issued for the purpose of financing improvements to the sewer and water systems of the Division. The bonds are special and limited obligations of the Division, secured by and payable from a pledge and dedication of a ½% sales tax levied by the Parish for the Division.

The gross proceeds of the sales tax are collected by the St. Bernard Parish Sheriff, who withholds a portion to pay the reasonable and necessary expenses of collection and administration of the tax. After payment of such expenses, the remaining balance of the revenues of the tax shall constitute a dedicated fund of the Division, from which appropriations and expenditures by the Division shall be made solely for the purposes designated in the proposition authorizing the levy of the tax, including the payment of the bonds. The bond resolution requires the Water and Sewer Division to establish and maintain the following accounts:

1. A debt service account with monthly deposits of one-twelfth of the principal falling due on the next principal payment date and one-sixth of the interest falling due on the next interest payment date.
2. A debt service reserve account equal to the lesser of a) 10% of the original proceeds or b) the maximum principal and interest requirements for any succeeding bond year.

Management has established the following accounts to report the use of sales tax proceeds:

1. A reserve for inflow and infiltration account equal to 25% of the annual revenues of the tax to correct inflow and infiltration in sewage collection lines, or to repair damage caused thereby, unless required for debt service on bonds or otherwise approved by at least two-thirds of the total membership of the Parish Council.
2. A reserve for system improvements account with monthly transfers which represent the ½% sales tax being levied and collected.

The Division has established and maintains these accounts, and at December 31, 2003, the cash and cash equivalents balances in the debt service account, the debt service reserve account, the inflow and infiltration account, and the construction fund account were \$2,040,171, \$965,073, \$3,436,675 and \$1,437,348, respectively. The account balances exceed the minimum requirements of the bond indenture.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 10 - LONG-TERM LIABILITIES (CONTINUED)

e. Revenue Bonds

On April 1, 1994, \$7,195,000 of the 1986 Revenue Bonds was defeased. As a result of the defeasance, \$7,950,000 of Series 1994 Revenue Refunding Bonds was issued in 1999. The interest rate on the new bonds ranges from 4.65% to 5.2%, and the bonds mature on August 1, 2006 with debt service payments due in annual principal installments from \$735,000 to \$940,000. The balance outstanding at December 31, 2003 was \$2,685,000.

On July 31, 2001, \$915,000 of the 1991 Revenue Bonds was defeased. As a result of the defeasance, \$950,000 of 2001 Revenue Refunding Bonds was issued with an interest rate of 4.89%. Annual principal installments range from \$65,000 to \$130,000 and the bonds mature on August 1, 2011. The balance outstanding at December 31, 2003 was \$815,000.

The bonds are payable solely from and secured by a first lien upon and a pledge of the net revenues of the system. The revenues pledged by the Water and Sewer Division include all fees, rents, charges, and other income derived, or to be derived by or for the account of the Division from, or for, the ownership, operation, use, or services of the system and any other amounts paid into and credited to the revenue fund created by the 1991 and 1994 revenue bond resolutions.

Such revenues include, but are not limited to, proceeds of any ad valorem taxes received by the Division pursuant to the terms of the intergovernmental agreement. Such revenues exclude (a) federal, state, or local government monies received for capital improvements to the system and (b) amounts necessary to pay the reasonable and necessary current expenses of operating and maintaining the system.

Pursuant to a resolution, the Water and Sewer Division has agreed in each bond year to fix, establish, and collect such rates and collect such fees, rentals, or other charges for all services, after making due allowance for delinquencies in collection and after providing for the payment of the reasonable and necessary expenses of operating and maintaining the system, to produce net revenues (1) that are sufficient to pay debt service on all outstanding bonds and to maintain the funds and accounts established in the resolution and (2) that result in each fiscal year in the greater of (a) the sum of debt service payable on the bonds in the ensuing fiscal year plus any required deposit to the Debt Service Reserve Fund or (b) a ratio of net revenues to average annual debt service of not less than 1.25 to 1. The ratio of net revenues to average annual debt service for the year ended December 31, 2003, was 2.18 to 1.

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

1. A debt service reserve account with the sum equal to the maximum annual debt service on the bonds.
2. A debt service account with monthly deposits of one-twelfth of the annual principal and interest payment to pay promptly and fully the principal and interest on the loan as it becomes due and payable.
3. A renewal and replacement account with monthly deposits of 5% of the prior month's operating expenses, which will be used to care for extensions, additions, improvements, renewals, and replacements necessary to properly operate the system.

The Division has established and maintains these accounts, and at December 31, 2003, the cash and cash equivalent balances in the debt service reserve account, the debt service account, and the renewal and replacement account were \$1,440,668, \$646,825, and \$4,423,598, respectively. The account balances in the debt service reserve, debt service and renewal and replacement accounts exceed the minimum requirements of the bond indenture.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 10 - LONG-TERM LIABILITIES (CONTINUED)

f. Prior Years' Defeasance of Debt

In prior years, the Water and Sewer Division defeased certain revenue and general obligation bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the business-type activities, Water and Sewer Division's long-term bonds payable. As of December 31, 2003, the amount of defeased debt outstanding but removed from the financial statements amounted to \$3,940,000.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the Division provides post-employment health care benefits, in accordance with the Division's personnel policy, to all employees who retire either: 1) on or after attaining age 60 with at least 10 years of service, or 2) on or after attaining age 55 with at least 25 years of service, or 3) on or after attaining any age with at least 30 years of service. As of the year end, 18 retirees have met those eligibility requirements. These benefits for retirees and similar benefits for active employees are provided through an insurance company whose monthly premiums are paid by the Division.

NOTE 12 - CUSTOMER DEPOSITS

The St. Bernard Parish Government continues the process of replenishing the meter deposit account and has not used any of the deposits for expenses or capital expenditures since the consolidation of the Water and Sewer Division into the parish government in 1997. At December 31, 2003, the customer meter deposits cash account had a balance of \$585,715 and meter liability of \$1,326,217.

NOTE 13 - COMPENSATION PAID TO COUNCIL MEMBERS

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

NOTE 14 - ADMINISTRATIVE ORDERS

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

As of December 31, 2003, the Division has filed a response to the deficiencies cited in the order and has placed into operation all improvements necessary to obtain compliance. However, the EPA has not officially cleared the Division of the violations. The Division may be assessed up to \$27,500 per day in penalties for noncompliance to the order. There have been no assessments by the EPA or penalties accrued in the combined financial statements.

During 2003, the St. Bernard Parish Department of Public Works Water and Sewer Division received several administrative orders from the United States Environmental Protection Agency (EPA). The orders stated that the Division has violated its National Pollutant Discharge Permit and the Clean Water Act. The EPA has allowed the Division a reasonable period, for each administrative order, to take corrective action to eliminate and prevent recurrence of the noncompliant discharges cited in the findings or to submit a comprehensive plan to eliminate and prevent recurrence of violations cited in findings.

As of December 31, 2003, the Division has filed a response to the deficiencies cited in the order to obtain compliance. However, the EPA has not officially cleared the Division of the violations. There have been no assessments by the EPA or penalties accrued in financial statements.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 15 - SELF INSURANCE / RISK MANAGEMENT

The Division is exposed to various risks of loss related to general liability, auto liability, workers' compensation, unemployment compensation, property and group health benefits. Various suits and claims arising from personal injury and property damage, some for substantial amounts, are pending against the Division, its insurers and others. In accordance with Statement of Financial Accounting Standards No. 5, the Division has provided for, in its financial statements, estimated losses from the aforementioned pending suits and claims based on the estimated ultimate cost of settling the claims, considering the effects of inflation, recent claim settlement trends and other social and economic factors, including the effect of specific incremental claim adjustment expenses, salvage and subrogation. The Division believes the ultimate settlement costs will not materially exceed the amounts provided for the claims.

The Division was self insured for hospitalization claims up to approximately \$20,000 per employee or an aggregate of approximately \$231,000 claims per year until July 2000. The excess was insured under an insurance policy. An independent insurance service company administered the fund. The Division is no longer self-insured for hospitalization.

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Claims liability at beginning of year	\$ -	\$ -	\$ 627
Plus: provision for incurred claims	-	-	-
Less: claims paid	-	-	(627)
Claims liability at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Effective February 1, 1997, the Division established a self-insurance fund for their workman's compensation, unemployment compensation, general and automobile liability. The Division is self insured for claims up to \$250,000 per occurrence. The Division has an insurance policy for claims between \$250,000 and \$5,000,000 per occurrence. Two independent insurance service companies administer the fund.

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

The following represents a reconciliation of total claims liability:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Claims liability at beginning of year	\$ 692,732	\$ 808,712	\$ 484,743
Plus: provision for incurred claims	(123,082)	181,625	937,557
Less: claims paid	<u>(121,572)</u>	<u>(297,605)</u>	<u>(613,588)</u>
Claims liability at end of year	<u>\$ 448,078</u>	<u>\$ 692,732</u>	<u>\$ 808,712</u>

The claims liability at December 31, 2003 is not reported in the financial statements, but is reported in the primary government financial statements.

NOTE 16 - SUBSEQUENT EVENT

In June 2004, the St. Bernard Parish Government Water and Sewer Division will issue \$50,000,000 of Sales Tax Bonds, Series 2004 for the purpose of making capital improvements and refunding the outstanding Water and Sewer Refunding Bonds, Series 1994. The Bonds bear interest of 4.55% and require annual payments from \$1,135,000 to \$3,695,000 and mature on March 1, 2024.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 17 - CONTINGENCIES

The Division is named as a defendant in a number of lawsuits arising principally from claims related to personal injury, negligence, and property damage. As discussed in Note 14, the Division is primarily self-insured with respect to claims of these types. The Division's insurance department and its attorneys have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the Division and to arrive at an estimate, if possible, of the amount or range of potential loss to the Division.

As a result of such a review, loss contingencies, which could be reasonably estimated, have been categorized as "probable", "reasonably possible", and "remote", as defined in Governmental Accounting Standards Board Codification Section C50 - Claims and Judgments. Loss contingencies for the Division for "probable cause" cases amounting to \$326,500 have not been accrued in the financial statements. The loss contingency for the Division was recorded in the primary government's financial statements. The Division's "reasonably possible" loss contingencies at December 31, 2003 for which an amount of liability cannot be estimated are not reflected in the financial statements.

NOTE 18- RESTATEMENT OF PRIOR YEAR FUND EQUITY

In 2003, the Parish government implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". The impact of this restatement on the business-type activities net assets are as follows:

Total fund balances/fund equity, as previously reported	\$	61,406,278
Internal service fund reported in prior years should have been reported in the primary government		227,214
Capital assets, net of depreciation		<u>(29,129,646)</u>
Restated net assets, December 31, 2002	\$	<u>32,503,846</u>

The beginning balance of capital assets has been restated due to the implementation of GASB Statement 34 requirements. Reclassifications have been made and infrastructure has been recorded. The following table represents the above mentioned changes to the business-type activities capital assets:

	<u>Enterprise Funds Fixed Assets, as Previously Reported</u>	<u>Enterprise Activities Capital Assets, as Restated</u>	<u>Increase (Decrease)</u>
Land	\$ 177,286	\$ 177,286	\$ -
Buildings	28,869,527	44,667,662	15,798,135
Furniture, fixtures and equipment	1,226,706	31,043	(1,195,663)
Machinery and equipment	5,032,087	954,485	(4,077,602)
Pipeline system	58,876,784	57,273,675	(1,603,109)
Construction in progress	<u>20,105,410</u>	<u>16,666,414</u>	<u>(3,438,996)</u>
	114,287,800	119,770,565	5,482,765
Accumulated depreciation	<u>(54,418,467)</u>	<u>(89,030,878)</u>	<u>(34,612,411)</u>
	<u>\$ 59,869,333</u>	<u>\$ 30,739,687</u>	<u>\$ (29,129,646)</u>

**ST BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

NOTE 19 - SEGMENT INFORMATION

Segment information for the Water and Sewer Division and the Districts is as follows:

	Water and Sewer Division	Water District		Sewer District		Total
		No. 1	No. 2	No. 1	No. 2	
Operating revenues	\$ 9,733,241	\$ -	\$ -	\$ -	\$ -	\$ 9,733,241
Operating expenses:						
Depreciation and amortization	1,778,698	-	-	532	10,911	1,790,141
All other	9,193,293	-	-	-	-	9,193,293
Operating loss	(1,238,750)	-	-	(532)	(10,911)	(1,250,193)
Sales and ad valorem tax revenues	4,020,794	-	-	-	136,652	4,157,446
Net income (loss)	2,241,545	1,145	1,536	(1,212)	123,450	2,366,464
Capital asset additions	6,070,746	-	-	-	-	6,070,746
Bonds payable:						
Payable from operating revenue	1,270,000	-	-	-	180,000	1,450,000
Payable from other sources	10,845,237	-	-	-	157,270	11,002,507
Net working capital	10,697,540	21,078	120,385	78,537	157,270	11,074,810
Total assets	52,362,387	89,731	120,385	78,537	344,998	52,996,038
Total net assets	34,650,310	21,078	120,385	78,537	-	34,870,310

OTHER SUPPLEMENTAL INFORMATION

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
NONMAJOR ENTERPRISE FUND DESCRIPTIONS
DECEMBER 31, 2003**

Water District No. 1

This fund is used to account for the ad valorem taxes and state revenue sharing monies received for the maintenance, operations, and debt service of its district. The portion of monies relating to maintenance and operations are transferred to the Division, which pays the operating expenses of Water District No. 1.

Sewer District No. 1

This fund is used to account for the ad valorem taxes and state revenue sharing monies received for the maintenance, operations, and debt service of its district. The portion of monies relating to maintenance and operations are transferred to the Division, which pays the operating expenses of Sewer District No. 1.

Sewer District No. 2

This fund is used to account for the ad valorem taxes and state revenue sharing monies received for the maintenance, operations, and debt service of its district. The portion of monies relating to maintenance and operations are transferred to the Division, which pays the operating expenses of Sewer District No. 2.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2003**

	Water District No. 2	Sewerage District		Total Nonmajor Enterprise Funds
		No. 1	No. 2	
ASSETS				
Current assets:				
Due from other funds	\$ -	\$ 68,653	\$ 25,425	\$ 94,078
Restricted Assets:				
Cash and cash equivalents:				
Other debt service accounts	120,385	9,884	191,067	321,336
Ad valorem taxes receivable (net of allowance for doubtful accounts of \$4,573)	-	-	128,506	128,506
Total restricted assets	<u>120,385</u>	<u>9,884</u>	<u>319,573</u>	<u>449,842</u>
Total current assets	<u>120,385</u>	<u>78,537</u>	<u>344,998</u>	<u>543,920</u>
Total assets	<u>120,385</u>	<u>78,537</u>	<u>344,998</u>	<u>543,920</u>
LIABILITIES				
Current liabilities payable from restricted assets:				
Bonds payable	-	-	180,000	180,000
Accrued interest payable	-	-	7,728	7,728
Total current liabilities payable from restricted assets	<u>-</u>	<u>-</u>	<u>187,728</u>	<u>187,728</u>
Noncurrent liabilities:				
Bonds payable, net of unamortized debt expense	-	-	157,270	157,270
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>157,270</u>	<u>157,270</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>344,998</u>	<u>344,998</u>
NET ASSETS				
Restricted for:				
Debt service	<u>120,385</u>	<u>78,537</u>	<u>-</u>	<u>198,922</u>
Total net assets	<u>\$ 120,385</u>	<u>\$ 78,537</u>	<u>\$ -</u>	<u>\$ 198,922</u>

The notes to the financial statements are an integral part of this statement.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Water District No. 2	Sewerage District		Total Nonmajor Enterprise Funds
		No. 1	No. 2	
OPERATING EXPENSES				
Depreciation and amortization	\$ -	\$ 532	\$ 10,911	\$ 11,443
Total operating expenses	<u>-</u>	<u>532</u>	<u>10,911</u>	<u>11,443</u>
Operating loss	<u>-</u>	<u>(532)</u>	<u>(10,911)</u>	<u>(11,443)</u>
NONOPERATING REVENUES (EXPENSES)				
Ad valorem tax for debt retirement	-	-	136,652	136,652
Interest earnings:				
Restricted assets	1,536	279	2,884	4,699
Interest expense and bank fees	-	(959)	(26,688)	(27,647)
Deductions from taxes	-	-	(3,912)	(3,912)
Total nonoperating revenues (expenses)	<u>1,536</u>	<u>(680)</u>	<u>108,936</u>	<u>109,792</u>
Income (loss) before transfers	1,536	(1,212)	98,025	98,349
Transfers in	<u>-</u>	<u>-</u>	<u>25,425</u>	<u>25,425</u>
Change in net assets	1,536	(1,212)	123,450	123,774
Total net assets - beginning, restated	<u>118,849</u>	<u>79,749</u>	<u>(123,450)</u>	<u>75,148</u>
Total net assets - ending	<u>\$ 120,385</u>	<u>\$ 78,537</u>	<u>\$ -</u>	<u>\$ 198,922</u>

The notes to the financial statements are an integral part of this statement.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Water District No. 2	Sewerage District		Total Nonmajor Enterprise Funds
		No. 1	No. 2	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Payments to suppliers	\$ -	\$ (21)	\$ -	\$ (21)
Net cash used by operating activities	-	(21)	-	(21)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Receipts from ad valorem taxes - debt retirement	-	-	157,827	157,827
Payments for deductions for taxes	-	-	(3,912)	(3,912)
Principal paid on capital debt	-	(90,000)	(335,000)	(425,000)
Interest paid on capital debt	-	(2,925)	(34,072)	(36,997)
Net cash used by capital financing activities	-	(92,925)	(215,157)	(308,082)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on cash management activities	1,536	279	2,884	4,699
Net cash provided by investing activities	1,536	279	2,884	4,699
Net increase (decrease) in cash and cash equivalents	1,536	(92,667)	(212,273)	(303,404)
Cash and cash equivalents - beginning	118,849	102,551	403,340	624,740
Cash and cash equivalents - ending	<u>\$ 120,385</u>	<u>\$ 9,884</u>	<u>\$ 191,067</u>	<u>\$ 321,336</u>
Classified as:				
Restricted cash and cash equivalents:				
Other debt service accounts	<u>\$ 120,385</u>	<u>\$ 9,884</u>	<u>\$ 191,067</u>	<u>\$ 321,336</u>
Reconciliation of operating income to net cash used by operating activities:				
Operating loss	\$ -	\$ (532)	\$ (10,911)	\$ (11,443)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization	-	532	10,911	11,443
Decrease in accounts payable and other accruals	-	(21)	-	(21)
Total adjustments	-	511	10,911	11,422
Net cash used by operating activities	<u>\$ -</u>	<u>\$ (21)</u>	<u>\$ -</u>	<u>\$ (21)</u>

The notes to the financial statements are an integral part of this statement.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
SCHEDULE OF ANNUAL DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2003**

Years	Water and Sewer Division 1999 Sales Tax Bonds			Water and Sewer Division 2001 and 1994 Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 345,000	\$ 467,590	\$ 812,590	\$ 925,000	\$ 176,879	\$1,101,879
2005	365,000	449,132	814,132	970,000	130,711	1,100,711
2006	390,000	429,605	819,605	1,015,000	81,399	1,096,399
2007	410,000	408,740	818,740	110,000	28,851	138,851
2008	435,000	386,805	821,805	110,000	23,472	133,472
2009	460,000	363,532	823,532	120,000	18,093	138,093
2010	485,000	338,922	823,922	120,000	12,225	132,225
2011	515,000	312,975	827,975	130,000	6,357	136,357
2012	545,000	285,423	830,423	-	-	-
2013	575,000	256,265	831,265	-	-	-
2014	605,000	225,502	830,502	-	-	-
2015	645,000	193,135	838,135	-	-	-
2016	680,000	158,628	838,628	-	-	-
2017	720,000	122,248	842,248	-	-	-
2018	760,000	83,728	843,728	-	-	-
2019	805,000	43,068	848,068	-	-	-
Total debt service requirements	<u>\$ 8,740,000</u>	<u>\$ 4,525,298</u>	<u>\$ 13,265,298</u>	<u>\$ 3,500,000</u>	<u>\$ 477,987</u>	<u>\$ 3,977,987</u>

**Sewer Districts Nos. 1 and 2
Public Improvement Bonds**

<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>
\$ 180,000	\$ 17,245	\$ 197,245	\$ 1,450,000	\$ 661,714	\$ 2,111,714
170,000	5,653	175,653	1,505,000	585,496	2,090,496
-	-	-	1,405,000	511,004	1,916,004
-	-	-	520,000	437,591	957,591
-	-	-	545,000	410,277	955,277
-	-	-	580,000	381,625	961,625
-	-	-	605,000	351,147	956,147
-	-	-	645,000	319,332	964,332
-	-	-	545,000	285,423	830,423
-	-	-	575,000	256,265	831,265
-	-	-	605,000	225,502	830,502
-	-	-	645,000	193,135	838,135
-	-	-	680,000	158,628	838,628
-	-	-	720,000	122,248	842,248
-	-	-	760,000	83,728	843,728
-	-	-	805,000	43,068	848,068
<u>\$ 350,000</u>	<u>\$ 22,898</u>	<u>\$ 372,898</u>	<u>\$ 12,590,000</u>	<u>\$ 5,026,183</u>	<u>\$ 17,616,183</u>

ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
SCHEDULE OF COMPUTATION OF THE RATIO OF
NET REVENUES (EXCLUDING WATER AND SEWER DISTRICTS)
TO AVERAGE ANNUAL DEBT SERVICE REQUIREMENT OF REVENUE BONDS
FOR THE YEAR ENDED DECEMBER 31, 2003

Division operating revenues	\$	9,733,241
Add nonoperating revenue - interest earned on current assets		<u>1,063</u>
Total revenues available		<u>9,734,304</u>
Division operating expenses		10,971,991
Less depreciation and amortization		<u>(1,778,698)</u>
Total adjusted expenses		<u>9,193,293</u>
Net revenues	\$	<u>541,011</u>
Average annual debt service requirement	\$	<u>248,624</u>
Ratio of net revenues to average annual debt service requirement		<u>2.18</u>

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
SCHEDULE OF METERED CUSTOMERS
December 31, 2003**

(Unaudited)

At December 31, 2003, the St. Bernard Parish Government Department of Public Works Water and Sewer Division had 24,724 metered customers.

SPECIAL REPORT SECTION

REBOWE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
CONSULTANTS

A PROFESSIONAL CORPORATION

3501 N. Causeway Blvd. • Suite 810 • P.O. Box 6952 • Metairie, LA 70009
Phone (504) 837-9116 • Fax (504) 837-0123 • E-mail rebowe@rebowe.com

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*

To the St. Bernard Parish Council,
Chalmette, Louisiana

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts (the "Division"), as of and for the year ended December 31, 2003, which collectively comprise the Division's basic financial statements and have issued our report thereon dated June 21, 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 the Division'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 as item 03-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and the use of the Administration of St. Bernard Parish Government, the St. Bernard Parish Council, the State of Louisiana, the Legislative Auditor of the State of Louisiana, federal awarding agencies and pass-through entities 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.

Rebowe & Company

June 21, 2004

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003**

A - Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the St. Bernard Parish Government Department of Public Works Water and Sewer Division and the Districts (the "Division").
2. No reportable conditions in internal control relating to the audit of the financial statements are reported in the *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*.
3. One instance of noncompliance material to the financial statements of the Division which would be required to be reported in accordance with *Governmental Auditing Standards* was disclosed during the audit.
4. A management letter was not issued for the year ended December 31, 2003.

B - Findings - Financial Statement Audit

Internal Control

There were no internal control findings noted during the audit year ended December 31, 2003.

Compliance

Finding 03-1 - Transfer to Sinking Fund

Condition - One instance was noted where the Division was late making required monthly transfers to the sinking fund for the Sales Tax Bonds - Series 1999.

Criteria - The bond agreement requires monthly transfers of 1/6 of the next interest payment and 1/12 of the next principal payment on or before the 20th day of each month.

Effect - The Division could fail to reserve amounts necessary to meet the next interest and/or principal payment.

Cause - Procedures were not in place to properly monitor the sinking fund transfers.

Recommendation - The Division should implement measures to ensure that all required debt transfers are made on or before they are due.

Response - See Management's Corrective Action Plan for their response.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Findings - Financial Statement

Compliance

Finding 02-1 **Condition** - Grant information, awards, and applications are not centrally maintained for the Water & Sewer Division. We noted one instance where a request for reimbursement of \$218,841 (\$139,514 at December 31, 2002) related to an EPA grant had not been made, nor was anyone assigned to prepare such a request.

Recommendation - Copies of all grant documents should be maintained by the Department of Finance and a member of the staff should be required to reconcile grant revenues and expenditures on a monthly basis. A request for reimbursement for the grant noted above (\$218,841) should be made immediately.

Current Status - This finding has been resolved. Grant applications are initiated at the department level, however, all grant documents are forwarded and maintained by the Assistant to the President. Along with the Department of Finance, grant revenues and expenditures are reconciled timely. The request for reimbursement for the grant noted above (\$218,841) was completed.

Finding 02-2 **Condition** - The Department of Finance does not fully utilize encumbrance accounting within their accounting function and financial reporting for the Water & Sewer Division.

Recommendation - The Department of Finance should recognize those purchase orders unfilled at the end of the reporting period and reserve a portion of the fund balance to reflect the amounts likely to be due in the next period as a result of unfilled goods and services requisitioned.

Current Status - This finding has been resolved. The Department of Finance has implemented the necessary steps to recognize purchase orders unfilled at the end of the reporting period and reserves a portion of the fund balance to reflect the amounts likely to be due in the next period as a result of unfilled goods and services requisitioned.

Finding 02-3 **Condition** - Self insurance monthly loss run reports are not being reconciled to the general ledger.

Recommendation - The Department of Finance should delegate the duties of performing reconciliations between the general ledger accounting records and the monthly loss run reports on a monthly basis. In addition, an employee one level above the employee performing the reconciliations should review the reconciliations.

Current Status - This finding has been resolved. The Department of Finance has implemented the necessary steps to reconcile the general ledger accounting records to the monthly loss run reports. This procedure is being performed quarterly.

Finding 02-4 **Condition** - Currently the Division does not prepare a reconciliation of the meter deposit general ledger control account and the subsidiary ledger.

Recommendation - The Division should continue to investigate and correct differences between the meter deposit subsidiary ledger and the general ledger. In the two previous years, the difference between the subsidiary ledger and the general ledger was \$42,201 and \$28,132, respectively. Reconciliations should be prepared on a monthly basis. The Division should also send confirmations of deposit balances to all customers and use the information obtained to update its records and reconcile the deposit balance.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2003**

Findings - Financial Statement (Continued)

Compliance (Continued)

Finding 02-4 (Continued)

Current Status - This finding has been resolved. The Division has taken the necessary steps to correct the differences between the meter deposit subsidiary ledger and the general ledger. Reconciliations are prepared on a monthly basis.

Finding 02-5 **Condition** - Two instances were noted where the Division was late making required monthly transfers to the sinking fund for the Sales Tax Bonds – Series 1999.

Recommendation - The Division should implement measures to ensure that all required debt transfers are made on or before they are due.

Current Status - This finding has not been resolved. See Finding 03-1.

**ST. BERNARD PARISH GOVERNMENT
DEPARTMENT OF PUBLIC WORKS
WATER AND SEWER DIVISION AND THE DISTRICTS
MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2003**

Finding 03-1 - Late Transfers to Sinking Fund

Recommendation - The Division should implement measures to ensure that all required debt transfers are made on or before they are due.

Corrective Action - The Finance Department has implemented procedures to make the required transfers to the sinking funds.

Implementation Date - January 1, 2004.

Contact - Barbara G. Bench, Finance Director (504) 278-4255.