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ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1
ST. TAMMANY PARISH, LOUISIANA
ANNUAL FINANCIAL STATEMENTS

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 7-14-04

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
St. Tammany Parish Communication District No. 1
St. Tammany Parish, Louisiana

We have audited the accompanying basic financial statements of the St. Tammany Parish Communication District No. 1, a component unit of the St. Tammany Parish Council, as of December 31, 2003 and for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the St. Tammany Parish Communication District No. 1 as of December 31, 2003, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and *Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements* as of January 1, 2003. This results in a change in the form and content of the basic financial statements.

The Management's Discussion and Analysis on pages 5 through 8 and the budgetary comparison schedule identified on pages 26 - 27 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board and Louisiana Revised Statutes 33:9101. We have applied certain limited procedures, which consist primarily 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.

To the Board of Commissioners
St. Tammany Parish Communication District No. 1

Our audit was made for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying information listed as other supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the St. Tammany Parish Communication District No. 1. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards* we have also issued a report dated March 9, 2004, on our consideration of the St. Tammany Parish Communication District No. 1's internal control over financial reporting and on our tests of its compliance with 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 the report in considering the results of our audit.

March 9, 2004

Smith, Havel & Associates, L.L.C.

St. Tammany Parish Communications District No. 1
Covington, Louisiana

Management's Discussion and Analysis

For the Fiscal Year Ended December 31, 2003

The following discussion and analysis of fiscal operations for the year is intended to supplement the annual financial audit completed by Smith, Huval & Associates, L.L.C. This discussion will supplement the audit information and provide an explanation of the financial operations of the district. This document is not intended as a replacement of the financial audit, nor is it intended to be a duplication of that report. Rather, it is an attempt to restate various components of the audit in laymen's terms and offer understanding of the district's financial posture.

Once again, the District Commissioners have done an excellent job of recognizing the unique role of the district and have made a series of wise and informed decisions to use the district funding to supplement and complement, but not replace, the operational practices of the various public safety agencies in the parish. The audit for 2003 is an analysis of the management practices followed by the Commissioners and the staff, and no questioned costs were raised by the auditor regarding practices of the district. This analysis will explain the financial decision made by the Commissioners and how they relate to the operation of the district and the public safety agencies.

An informed reader of the financial audit has no doubt observed that the format used for this report differs from that one is accustomed to seeing in the financial reports of a business, and has some additional information than that provided in previous years. An audit of a special purpose district in Louisiana provides a unique combination of government-wide financial statements and fund financial statements. This analysis will discuss both types and it will also explain the differences in the information each provides.

The "Statement of Net Assets" is essentially a balance sheet presented in a format similar to that one would expect to see for a business rather than a governmental entity. This statement shows capital assets (less the accumulated depreciation taken on these assets) included in Total Assets. The "Balance Sheet - Governmental Funds" essentially shows the value of cash, receivables, and investments, but does not reflect the value of other assets. This "Balance Sheet - Governmental Funds" is provided to show a clearer picture of the long term financial position and is very similar to what is commonly referred to as government fund accounting. The "Balance Sheet - Governmental Funds" shows the potential funds that the district has at its disposal, along with the various restrictions placed on some of these funds, to assist in planning future actions that will require the expenditure of funds.

The following is a summary of the Statement of Net Assets at December 31, 2003:

Current and other assets	\$4,140,589
Capital assets net of accumulated depreciation	<u>826,320</u>
Total assets	4,966,909
Long-term liabilities outstanding	1,935,000
Other liabilities	<u>250,748</u>
Total liabilities	2,185,748
Net assets	
Capital assets net of related debt	(108,680)
Restricted - construction	1,000,000
Designated	1,800,000
Undesignated	<u>89,841</u>
Total net assets	\$2,781,161

St. Tammany Parish Communications District No. 1
Covington, Louisiana

Management's Discussion and Analysis (Continued)

For the Fiscal Year Ended December 31, 2003

Funds that are invested in capital assets, such as furniture, computer equipment, the 9-1-1 telephone system, or real estate, are not funds that are readily available, and the dollar amount listed for capital assets do not necessarily reflect the current market value of these assets. For example, if the district were to sell the 9-1-1 equipment or computers there is a very strong likelihood these would not bring the amount paid to purchase and install the equipment (less the depreciation deducted since the purchase). Conversely, the value of real estate could well have appreciated in value and be worth more than the amount reflected on the financial statements. In any case, these values are not something that can be readily converted into cash and that cash then used to purchase other assets, such as equipment for the new communications center. For these reasons the "Balance Sheet – Governmental Funds" is provided to show more clearly the funds that are available to the district that could perhaps be used for such purchases.

Please note on the "Balance Sheet – Governmental Funds" that some of the funds are listed as reserved or designated for certain uses. The funds designated as "Reserved-construction" are funds from the bonds issued by the district in 2003 and their usage is restricted by the terms of that offering to construction of the new communications center. The funds marked "Designated – construction" are additional funds that the Board has specifically set aside for the construction project and are not considered available for other uses. The funds marked "Designated – system upgrade" are also similarly committed by the Board to be used for upgrades to the 9-1-1 system itself (which can be used as a part of the construction project). The funds marked "Designated – contingency" were specifically dedicated by the Board to be set aside and reserved for unplanned system emergencies, should these occur. These funds are not available for the construction project. Finally, the funds marked "Unrestricted, unreserved" are not currently designated to any particular project and may be used at the Board's discretion.

It might be helpful to note that at the bottom of the "Balance Sheet – Governmental Funds" are entries to show Net assets by adding in the current depreciated value of capital assets and removing long term liabilities (the bond issue) and the accrued interest. These were not shown as a current liability because their repayment is pledged by future income and will be repaid using current funds designated for the construction project or other uses, but are reflected in "Net assets of governmental activities" to show the long-term financial picture.

The "Statement of Activities" is a summarized income statement where interest on the bond issue is shown as one entry and all other expenses related to the operation of the 9-1-1 system (Public safety) listed as a combined item. Also, note that the parish reimbursement of various expenses (FEMA repaying EOC salaries, for example) is shown as a reduction to expense rather than being shown as income. The logic behind this is that these expenses were incurred above normal operating expense to assist the parish in their emergency operations, and when these are repaid they are shown as a reduction to expense rather than as income. These expense and revenue items are then shown as a net change for the year, along with the beginning and ending value of the net assets that reflect the impact of the year's activity. The following is a summary of the statement of activities during the year ended December 31, 2003:

Revenues:	
Program	\$ 10,230
General	<u>2,697,810</u>
Total revenues	2,708,040
Expenses:	
Public safety	2,270,361
Interest on long-term debt	<u>80,371</u>
Total expenses	2,350,732
Change in net assets	<u>\$ 357,308</u>

St. Tammany Parish Communications District No. 1
Covington, Louisiana

Management's Discussion and Analysis (Continued)

For the Fiscal Year Ended December 31, 2003

The "Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds – General Fund" is an income statement in a format that more closely resembles that of the annual budget. It shows expenses detailed by various categories, and shows the parish reimbursements as income items rather than as a reduction in expense as detailed above.

In general, these financial statements do not reflect any unexpected or unplanned financial occurrences of major consequence. During the year, actual revenues of \$2,677,810 exceeded budget of \$2,534,000 resulting in a favorable variance of \$143,810 or 6%. Actual expenditures of \$2,309,011 was less than budget of \$2,611,306 resulting in a favorable variance of \$302,295 or 12%. The favorable variance resulted from reimbursements to other governments for 800 MHZ radios being less than that budgeted and capital outlay expenditures being delayed until 2004.

As predicted, a shift is occurring from wireline to wireless telephones and this is creating a shift in the source of income, although it has not had a major impact on the total revenue stream thus far. Currently approximately sixty percent of the income comes from the traditional wireline based telephone and forty percent from the newer wireless telephones. The shift from wireline to wireless will continue well into the future and it will have an impact on the district's financial position. Current legislation allows the collection of a monthly fee of \$1 on residential lines and \$2 on business phone lines whereas wireless telephones only remit a fee of eighty five cents per line regardless of residential or business usage. This trend to wireless will obviously have an effect on the amount of surcharge remitted per telephone line. Not quite so obvious is the potential of an actual reduction in the number of phone lines remitting a fee. Today many parish residents have both a wireline phone for the home and a wireless phone for use while mobile. A growing trend is to have only the wireless phone and use it as the home phone while at home, eliminating the separate wireline phone. In addition to this shift in technology the industry is also seeing new telecommunication services being offered that can be used to place an emergency call to 9-1-1 but may not be remitting the monthly surcharge under current rules. These will include such things as using the internet to obtain telephone service, and even broadband based Wi-Fi radio technology to use Personal Data Assistants as well as other devices to place calls. We are in a rapidly changing telecommunications environment and the St. Tammany Parish Communications District, along with other 9-1-1 entities, is working with the Louisiana Public Service Commission to ascertain that developing technologies are required to pay their fair share of the expense of maintaining the emergency communications infrastructure. In addition to the fiscal concerns of these developing technologies there are also many logistical concerns to ascertain that the emergency call is delivered to the correct agency, as well as to avoid the boondoggle that was created when wireless telephone service was initiated with little or no planning of how to route emergency calls to 9-1-1. Several industry groups are currently working on these technology challenges and the St. Tammany Parish Communications District will be actively involved to assure that the 9-1-1 telephone system maintains the ability to effectively process all requests for emergency assistance.

Also evident in the financial statements is the financial activity for assisting the parish in implementing a new communication center. This project has been several years in the making and has undergone a series of evolutions as the plans were adjusted to provide the best long-term solution for the dispatch of emergency service. Several options to build completely new facilities were considered, and ultimately rejected, and the district is now actively working with the parish to utilize the old courthouse in downtown Covington as a center for emergency services. The Emergency Operations Center was constructed here in 2003 and the new communications center will be constructed in 2004 and 2005. Funding for this project is reflected in the various funds shown on the financial statements, with the project proceeding as planned.

St. Tammany Parish Communications District No. 1
Covington, Louisiana

Management's Discussion and Analysis (Continued)

For the Fiscal Year Ended December 31, 2003

A major milestone in emergency communications in St. Tammany Parish was achieved by the communications district in 2003. Wireless 9-1-1, Phase II, was implemented throughout the parish. Phase II is the latest in wireless 9-1-1 technology and it enables the 9-1-1 system to identify the location of a *Phase II capable handset* when it is used to place a call to 9-1-1. It is important to note that not all handsets today display this information, so it is still very important that anyone using a wireless telephone to report an emergency be prepared to tell the dispatcher the location of the emergency. Today approximately 50 percent of the handsets display this Phase II information, and this number is expected to increase as customers update their telephones and the wireless carriers complete their system enhancements. This location information is delivered to the emergency dispatcher in the form of a latitude and longitude coordinate, requiring a computerized mapping system to properly utilize the information. The installation of these map display systems was completed in 2003 and Phase II has been implemented in St. Tammany Parish by all seven wireless carriers. There are currently only two parishes in Louisiana that have implemented this Phase II technology, with the other being Lafayette Parish. In the long term the implementation of Phase II should not have a negative financial impact to the district as the Federal Communications Commission is not requiring the local authorities to compensate the wireless carriers for their Phase II expense. Unlike Phase I, where Louisiana statutes required the communications district to provide cost recovery to the wireless carriers, in Phase II the carriers are authorized to recover their expenses directly from their customers through their rate base.

Net capital assets decreased by \$341,781. This was the result of \$33,048 in capital additions and current year depreciation of \$374,829. Long-term debt decreased by \$290,000 due to scheduled payment on certificate of indebtedness. During the year, the District negotiated a decrease in its interest rate on the certificate of indebtedness from 4.8% to 3.5%.

In conclusion, the accompanying audit provides a very detailed description of the financial practices of the St. Tammany Parish Communications District and the various financial statements indicate that the district has a solid financial foundation. They demonstrate that the commissioners have taken the proper steps to maintain financial stability as the district moves forward in assisting the parish in a major upgrade of the emergency communications, and that adequate funding is available to complete the project as planned. The district commissioners, working through their staff, have clearly demonstrated the existence of a sound plan for the management of the district fiscal resources.

Prepared by:

H.W. Glover, Jr. (Woody)
Director

BASIC FINANCIAL STATEMENTS

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

STATEMENT OF NET ASSETS

December 31, 2003

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 568,051
Investments	3,101,606
Receivables	470,932
Capital assets (net of accumulated depreciation)	<u>826,320</u>
 Total assets	 4,966,909
LIABILITIES	
Accounts payable	244,259
Accrued expenses	845
Accrued interest	5,644
Noncurrent liabilities:	
Due within one year	305,000
Due in more than one year	<u>1,630,000</u>
 Total liabilities	 <u>2,185,748</u>
NET ASSETS	
Invested in capital assets, net of related debt	(108,680)
Restricted - construction	1,000,000
Unrestricted:	
Designated for construction	300,000
Designated for contingency	500,000
Designated for system upgrade	1,000,000
Undesignated	<u>89,841</u>
 Total net assets	 <u>\$ 2,781,161</u>

The accompanying notes are an integral part of this statement.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2003

<u>Activities</u>	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenues and Changes in Net Assets Governmental Activities</u>
Governmental activities:			
Public safety	\$ 2,270,361	\$ 10,230	\$ (2,260,131)
Interest on long-term debt	80,371	-	(80,371)
Total	<u>\$ 2,350,732</u>	<u>\$ 10,230</u>	<u>\$ (2,340,502)</u>
General revenues:			
Fees -			
Line user fees			2,664,945
Interest and investment earnings			32,865
			<u>2,697,810</u>
Change in net assets			357,308
Net assets - beginning			<u>2,423,853</u>
Net assets - ending			<u>\$ 2,781,161</u>

The accompanying notes are an integral part of this statement.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2003

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 568,051
Investments	3,101,606
Receivables	<u>470,932</u>
 Total assets	 <u>\$ 4,140,589</u>
LIABILITIES	
Accounts payable	\$ 244,259
Accrued expenses	<u>845</u>
 Total liabilities	 <u>245,104</u>
FUND EQUITY	
Reserved - construction	1,000,000
Designated - construction	300,000
Designated - contingency	500,000
Designated - system upgrade	1,000,000
Unrestricted, undesignated	<u>1,095,485</u>
 Total fund equity	 3,895,485
 Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	826,320
Long-term liabilities, including certificates of indebtedness, are not due and payable in the current period and therefore are not reported in the funds.	(1,935,000)
Accrued interest on long-term liabilities is not reported in the governmental funds.	<u>(5,644)</u>
 Net assets of governmental activities	 <u>\$ 2,781,161</u>

The accompanying notes are an integral part of this statement.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND - GENERAL FUND

For the Year Ended December 31, 2003

REVENUES	
Line income	\$ 2,664,945
Intergovernmental	10,230
Investment earnings	<u>32,865</u>
 Total revenues	 2,708,040
EXPENDITURES	
St. Tammany Parish Sheriff	540,800
Contract services	328,024
Telephone	327,668
Salaries and wages	123,785
Phase I	111,172
800 MHz radios	86,247
Frame relay	67,818
Insurance	39,131
Fire study	25,233
Call out system	25,000
Professional fees	22,332
Rent	13,999
Repairs and maintenance	11,355
Utilities	11,062
Payroll taxes and fringe benefits	11,052
Phase II	9,310
Per diem	6,825
Office expenses	5,587
Conferences and seminars	5,395
Equipment rental	5,246
Travel	2,770
Advertising	2,070
Uniforms	240
Capital outlay	146,458
Debt service:	
Principal	290,000
Interest	<u>78,585</u>
 Total expenditures	 <u>2,297,164</u>

The accompanying notes are an integral part of this statement.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE (CONTINUED)
GOVERNMENTAL FUND - GENERAL FUND

For the Year Ended December 31, 2003

Excess of revenues over expenditures	\$ 410,876
Fund balance - beginning of year	<u>3,484,609</u>
Fund balance - end of year	<u>\$ 3,895,485</u>

The accompanying notes are an integral part of this statement.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2003

Amounts reported for governmental activities in the statement of activities (page 11) are different because:

Net change in fund balances - total governmental funds (page 13-14)	\$ 410,876
Governmental funds report capital outlays as expenditures. However, in the <i>statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</i>	(341,781)
The issuance of long-term debt (e.g., certificates of indebtedness) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>288,213</u>
Change in net assets of governmental activities (page 11)	<u>\$ 357,308</u>

The accompanying notes are an integral part of this statement.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The mission of the St. Tammany Parish Communication District No. 1 (the District) is to shorten the time required for a citizen to request and receive emergency aid. The district is mandated to take whatever actions are necessary to accomplish this task. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America applicable to governmental entities. The following is a summary of significant accounting policies:

1. Reporting Entity

The District was created in 1986 by Ordinance 687 of the St. Tammany Parish Council. The District is governed by a Board of Commissioners which are appointed by the St. Tammany Parish Council. The Board is composed of seven members who constitute the governing body of the District. Selection of Board Members is as follows: one member nominated by the Parish Council, one member nominated by the St. Tammany Parish Sheriff's Office, one member nominated by the Parish hospitals, two members nominated by the Municipal Law Enforcement Agencies and two members nominated by the Fire Protection Districts. A chairman is elected by the Board members for a period of one year.

As the governing authority of the parish, for financial reporting purposes, the St. Tammany Parish Council is the financial reporting entity for St. Tammany Parish. The financial reporting entity consists of (a) the primary government (Government) (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the St. Tammany Parish Council for financial reporting purposes. The basic criterion for including a potential component unit with the reporting entity is financial accountability.

The District is a component unit of the Parish Council because it appoints all members of the District and as such is financially accountable for the District. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Government, the general government services provided by that governmental unit, or the governmental units that comprise the financial reporting entity.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Basis of Presentation

The accompanying basic financial statements of the St. Tammany Parish Communication District No. 1 have been prepared in conformity with governmental accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The accompanying basic financial statements have been prepared in conformity with GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," issued in June 1999. As a result, an entirely new financial presentation format has been implemented.

Government-Wide Financial Statements (GWFS)

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental funds.

Fund Financial Statements (FFS)

The District uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions and activities. A fund is defined as a separate fiscal and accounting entity with a self-balancing set of accounts. The only fund of the District is classified as governmental. The emphasis on fund financial statements is on major funds, each displayed in a separate column. A fund is considered major if it is the primary operating fund of the District or its total assets, liabilities, revenues, or expenditures of the individual governmental fund is at least 10 percent of the corresponding total for all governmental funds.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Basis of Presentation - Continued

The District reports the following major governmental fund:

The General Fund is the primary operating fund of the District. It accounts for all the financial resources except those that are required to be accounted for in other funds.

3. Measurement Focus/Basis of Accounting

The amounts reflected in the governmental fund financial statements are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach is then reconciled, through adjustment, to the government-wide financial statements.

The amounts reflected in the governmental fund financial statements use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for interest and principal payments on general long-term debt which are recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The government-wide financial statements are accounted for using an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets and financial position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

The government-wide financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Measurement Focus/Basis of Accounting - Continued

Pursuant to LRS 33:9106 and Act 1029 of the 2000 Regular Session of the Louisiana Legislature, the District is authorized to collect the following taxes per subscriber per devise per month within the District:

Residential	\$1.00
Commercial	\$2.00
Wireless	\$.85

Service charges are collected by the District on a monthly basis and are considered measurable at the month of collection. Accordingly, service charges incurred in December 2003 and remitted in 2004 have been reported as a receivable.

4. Budgets and Budgetary Accounting

The District has adopted a budget for its General Fund. The budgetary practices include notice of the proposed budget, public inspection of the proposed budget and public hearings on the budget prior to adoption. Any amendment involving increases in expenditures must be approved by the District. Budgeted amounts in the accompanying financial statements include all amendments. All budgeted amounts which are not expended or obligated through contracts, lapse at year end. The District's budget is prepared on the cash basis of accounting which differs materially from the modified accrual basis required by accounting principles generally accepted in the United States of America.

5. Cash and Cash Equivalents and Investments

Cash includes amounts in interest-bearing demand deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the municipality 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.

Under state law, the municipality may invest in United States bonds, treasury notes, or certificates. These are classified as investments if their original maturities exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash equivalents. Investments are stated at their fair market value.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Capital Assets

All fixed assets of the District are recorded at historical costs. Depreciation of all exhaustible fixed assets is charged as an expense against their operations. The District was given a building that serves as headquarters for the 911 operations. This building was built in the early 1980's and through a calculation using a square footage formula, a reasonable estimate of the building's value was calculated at \$540,000.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. The District capitalizes equipment and furniture in excess of \$2,500. The following estimated useful lives and methods are used to compute depreciation:

Building	30 years	Straight Line
Furniture, fixtures and equipment	7 - 10 years	Straight Line
Computers	5 - 10 years	Straight Line
Vehicles	5 years	Straight Line

Depreciation expense amounted to \$374,829 for the year ended December 31, 2003.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Estimates

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

9. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted net assets first.

NOTE B - CASH AND CASH EQUIVALENTS

The following is a summary of cash and cash equivalents (book balances) at December 31, 2003:

Demand deposits	\$ 142,210
Money market fund	<u>425,841</u>
	<u>\$ 568,051</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2003, the District has \$635,701 in deposits (collected bank balances). These deposits are secured from risk by \$100,000 in federal deposit insurance and \$535,701 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

At December 31, 2003, the District also has \$425,841 in a money market fund of U.S. Government securities, which is considered GASB Category 2.

NOTE C - INVESTMENTS

At December 31, 2003, the District's investments consists of debt obligations of U.S. Government agencies which mature in less than a year. These securities are reported at their fair value of \$3,101,606, which is considered GASB Category 2.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2003 consists of service charges due from telephone companies of \$470,932. These receivables are considered to be fully collectible.

NOTE E - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2003 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Equipment and 911 system	\$ 1,726,035	\$ -	\$ -	\$ 1,726,035
Building	540,000			540,000
Vehicles	46,989			46,989
Computers	32,605	7,784		40,389
Furniture	<u>3,298</u>	<u>25,264</u>	<u>-</u>	<u>28,562</u>
Total capital assets being depreciated	2,348,927	33,048	-	2,381,975
Less accumulated depreciation for:				
Equipment and 911 system	(924,465)	(335,330)		(1,259,795)
Building	(216,000)	(18,000)		(234,000)
Vehicles	(21,763)	(9,398)		(31,161)
Computers	(18,127)	(8,022)		(26,149)
Furniture	<u>(471)</u>	<u>(4,079)</u>	<u>-</u>	<u>(4,550)</u>
Total accumulated depreciation	<u>(1,180,826)</u>	<u>(374,829)</u>	<u>-</u>	<u>(1,555,655)</u>
Total capital assets being depreciated - net	<u>\$ 1,168,101</u>	<u>\$ (341,781)</u>	<u>\$ -</u>	<u>\$ 826,320</u>

NOTE F - CERTIFICATES OF INDEBTEDNESS

The District has a Series 2001 certificate of indebtedness it owes to a local bank. The District pays annual principal payments until June 1, 2011 and semiannual interest at an annual rate of 3.5%. The certificate is secured by the future revenues of the District.

The following is a summary of certificates of indebtedness transactions of the District for the year ended December 31, 2003:

Certificate of Indebtedness, Series 2001, payable at January 1	\$ 2,225,000
Certificates issued	-
Principal payments	<u>(290,000)</u>
Certificate of Indebtedness, Series 2001, payable at December 31	<u>\$ 1,935,000</u>

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE F - CERTIFICATES OF INDEBTEDNESS (Continued)

Future principal payments on the Certificates of Indebtedness, Series 2001 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 1,</u>			
2004	\$ 305,000	\$ 62,388	\$ 367,388
2005	320,000	51,450	371,450
2006	335,000	39,988	374,988
2007	350,000	28,000	378,000
2008	145,000	19,338	164,338
2009 - 2011	<u>480,000</u>	<u>25,550</u>	<u>505,550</u>
	<u>\$ 1,935,000</u>	<u>\$ 226,714</u>	<u>\$ 2,161,714</u>

NOTE G - PENSION PLAN

The District contributes to a cost-sharing, multiple-employer defined benefit pension plan administered by the Parochial Employees' Retirement System of Louisiana (the Plan). The Plan provides retirement, disability and death benefits to plan members and beneficiaries. The Plan was established by the Louisiana legislature as of January 1, 1953, by act 205 of 1952. The system is administered by a Board of Trustees consisting of seven members. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Thomas B. Sims, CFA, Administrative Director, P.O. Box 14619, Baton Rouge, LA 70898-4619, or by calling 225-928-1361.

Any person who is a permanent employee of the District and works at least 28 hours per week is eligible to participate in the Plan. Members are entitled to a retirement benefit at or after age 60 with 10 years of creditable service, at age 55 with 25 years of creditable service, or at any age with 30 years of creditable service. The retirement benefit is generally 1% of the member's final compensation plus \$2 per month for each year of service credited prior to January 1, 1980, and 3% of final compensation for each year of service after that date.

State legislation has established the obligations of the District and the employees for contributions at 7.75% and 9.5% of covered salaries, respectively. The District's contributions to the plan for the years December 31, 2003, 2002 and 2001 was \$8,595, \$10,097 and \$6,631, respectively, equal to the required contributions for that year.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE H - STATUS OF WIRELESS E 911 IMPLEMENTATION

Pursuant to Louisiana Revised Statutes 33:9101 - 9109, the District has levied an emergency telephone service charge in the amount of \$.85 per wireless user per month. The proceeds of the service charge are to be used to pay for costs of implementing FCC mandates (Phase One) in order to provide an enhanced 9-1-1 service to wireless customers. The costs will include one-time payments to wireless suppliers to fund costs associated with Phase One. Enhanced 9-1-1 service provides the responding agency with location and other vital caller information. This service is already available to non-wireless customers.

LRS 33:9109 requires the District to negotiate and enter into cooperative endeavor agreements with each wireless supplier with customer addresses within St. Tammany Parish to ensure that the service charge is remitted and the service enhancements are implemented. LRS 33:9109 requires that implementation be completed within one year of tax levy. Also, it requires that information is included in the District's annual financial report on the revenues derived from the service charge, the use of such revenues, and the status of implementation of enhanced 9-1-1 service.

During the year ended December 31, 2000, the District contacted each of the wireless suppliers who serviced customers within St. Tammany Parish. The District initiated negotiations with each provider. As of December 31, 2003, six of the suppliers have signed the cooperative endeavor agreement and three suppliers have not signed the agreement. One major supplier has agreed to provide wireless Phase One service without a signed agreements, and are now providing this services. The two remaining suppliers have customers who live in St. Tammany Parish and remit fees for them, but do not provide wireless service here. They provide offshore service and do not have any facilities in the Parish. Accordingly Phase One will not apply to these suppliers in St. Tammany Parish.

The following is a summary of revenues derived from wireless service charges and how such funds were expended in the year ended December 31, 2003:

Total funds received from wireless service charges	\$1,083,152
Expenditures made solely for wireless 9-1-1	\$ 120,482
Portion of total expenditures attributable to wireless 9-1-1	\$1,052,976

Note: The expenditures attributable to wireless 9-1-1 calls is calculated using a percentage of wireless 9-1-1 calls to total 9-1-1 calls (including non-wireless calls) then applying that percentage to total expenditures.

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE I - COMMITMENTS

The District has entered into an intergovernmental agreement with the St. Tammany Parish Sheriff. Pursuant to this agreement, the District will reimburse the Sheriff \$400,000 per year through 2009 for operation and maintenance of the 800MHz EDACS Communication System. The annual appropriation is contingent on the District having sufficient funds to provide for payment.

REQUIRED SUPPLEMENTAL INFORMATION

ST. TAMMANY PARISH PARISH COMMUNICATION DISTICT NO. 1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - CASH BASIS

For the Year Ended December 31, 2003

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Line income	\$ 2,500,000	\$ 2,500,000	\$ 2,634,715	\$ 134,715
Intergovernmental	38,000	9,000	10,230	1,230
Investment earnings	40,000	25,000	32,865	7,865
Total revenues	2,578,000	2,534,000	2,677,810	143,810
EXPENDITURES				
St. Tammany Parish Sheriff	400,000	541,000	540,800	200
Contract services	337,000	328,000	328,050	(50)
Telephone	335,000	350,000	330,889	19,111
Salaries and wages	167,724	146,023	123,785	22,238
Phase I	50,000	138,700	123,081	15,619
800 MHZ radios	200,000	200,000	82,129	117,871
Frame relay	75,000	75,000	51,974	23,026
Insurance	33,000	45,000	40,076	4,924
Fire study	-	29,000	25,233	3,767
Call out system	-	25,000	25,000	-
Professional fees	20,000	18,500	22,537	(4,037)
Rent	-	14,000	13,999	1
Repairs and maintenance	6,000	42,400	42,454	(54)
Utilities	12,000	12,000	11,026	974
Payroll taxes and fringe benefits	18,712	18,583	11,052	7,531
Phase II	6,000	17,300	11,980	5,320
Per diem	9,000	7,200	6,825	375
Office expenses	8,200	8,200	4,843	3,357
Conferences and seminars	5,400	5,400	1,309	4,091
Equipment rental	5,000	5,000	4,851	149
Travel	32,500	35,800	7,099	28,701
Advertising	8,000	3,500	2,070	1,430
Uniforms	5,000	1,500	238	1,262
Capital outlay	810,000	197,200	129,126	68,074
Debt Service:				
Principal	290,000	290,000	290,000	-
Interest	99,840	57,000	78,585	(21,585)
Total expenditures	2,933,376	2,611,306	2,309,011	302,295

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - CASH BASIS

For the Year Ended December 31, 2003

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Excess (deficiency) of revenues over expenditures	\$ <u>(355,376)</u>	\$ <u>(77,306)</u>	\$ 368,799	\$ <u>446,105</u>
Reconciliation to GAAP excess of revenues over expenditures:				
Accrual of revenues not received until next fiscal year			470,932	
Reversal of revenues received in current fiscal year which relate to prior fiscal year			(360,788)	
Accrual of expenditures incurred but not paid at December 31, 2003			(244,259)	
Reversal of expenditures incurred in prior fiscal year but not paid until current fiscal year			<u>176,192</u>	
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis			\$ <u>410,876</u>	

OTHER SUPPLEMENTAL INFORMATION

ST. TAMMANY PARISH COMMUNICATION DISTRICT NO. 1

SCHEDULE OF GOVERNING BOARD

December 31, 2003

<u>Board of Commissioners</u>	<u>Compensation</u>
Tom Buell 1870 US Highway 190 Mandeville, LA 70448 626-9711	\$ 1,500
Nathan McCrimmon P.O. Box 571 Folsom, LA 70437 796-3823	1,500
Earl Gorondonna 709 Gerard Street Mandeville, LA 70448 626-2671	-
Freddy Drennan 2112 Sgt. Alfred Drive Slidell, LA 70458 646-4285	1,050
Jim Laurent P.O. Box 273 Lacombe, LA 70445 882-5108	1,275
Chris Kaufmann 554 Old Spanish Trail Slidell, LA 70458 646-4387	-
Marlin Peachey 806 Harmony Lane Mandeville, LA 70471 898-2722	1,500
Chris Canulette 21490 Koop Drive Mandeville, LA 70471 290-6751	-

Smith, Huval & Associates, L.L.C.

(A LIMITED LIABILITY COMPANY)

Certified Public Accountants

P.O. Box 3790

Covington, Louisiana 70434-3790

Samuel K. Smith, CPA
Patrick "Bryan" Huval, CPA

(985) 892-6633 - Covington
(985) 892-4666 - FAX

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

To the Board of Commissioners
St. Tammany Parish Communication District No. 1

We have audited the basic financial statements of the St. Tammany Parish Communication District No. 1 as of and for the year ended December 31, 2003 and have issued our report thereon dated March 9, 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 St. Tammany Parish Communication District No. 1'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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the St. Tammany Parish Communication District No. 1's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control 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 use of management and the Louisiana Legislative Auditor, 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.

March 9, 2004

Smith, Huval & Associates, L.L.C.

ST. TAMMANY PARISH COMMUNICATIONS DISTRICT NO. 1

STATUS OF PRIOR YEAR AUDIT FINDINGS

December 31, 2003

2002-1 Noncompliance with LRS 33:9109.

This finding has been resolved.