
ST. JAMES PARISH
GAS AND WATER DISTRIBUTION SYSTEM

STATE OF LOUISIANA
FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

Under provisions of state law, this report is a public document. A copy of the report has been furnished 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 10-20-04

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GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA
FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

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INDEPENDENT AUDITORY REPORT

To the President and Members
St. James Parish Council
Covington, Louisiana

We have audited the accompanying financial statements of the St. James Parish Gas and Water Distribution System, State of Louisiana, a component unit of St. James Parish Council, State of Louisiana, as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the management of the St. James Parish Council, State of Louisiana. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. James Parish Gas and Water Distribution System of St. James Parish Council, State of Louisiana, as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but any supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2006 on our consideration of St. James Parish Gas and Water Distribution System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This 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 audits.

Robert W. Matthews, Jr. & Matthew D. H.

Monroe, Louisiana
September 28, 2004

**St. James Parish
Gas & Water Distribution System
Management's Discussion and Analysis
Year Ended June 30, 2004**

This section of the St. James Parish Gas & Water Distribution System's (the "System") annual financial report presents a discussion and analysis of the System's financial performance during the fiscal years that ended June 30, 2004 and 2003. Please read it in conjunction with the System's financial statements, which follow this section.

Financial Highlights

- The volume of treated potable water sold during the 2004 fiscal year decreased by 1.6% and the volume of natural gas sold decreased by 5.1%. Gas revenue for 2004 increased to \$1,657,614; water revenue, however, decreased to \$1,563,285.
- The System's assets exceeded its liabilities (net assets) by \$8,981,628 at June 30, 2004. Of this amount, \$3,319,717 was invested in capital assets, net of related debt, and \$566,835 was restricted for debt service. Unrestricted net assets was \$494,075. The investment in capital assets of \$8,158,707 is a result of the System leveraging its income in capital assets to improve the efficiency and production capacity of the System.
- During the year, the System's net assets increased by \$398,977, a 12.6% increase when compared to the prior year change in net assets of \$234,318. Net assets totaled \$9,980,628 at June 30, 2004, compared to \$9,584,651 at June 30, 2003.
- The System's operating revenue in 2004 increased \$166,040 to \$3,396,163, which is 1.2% more than last year's operating revenue of \$3,230,123. The System's operating expenses increased by \$118,460 to \$3,383,658, which is 3.9% more than last year's operating expenses of \$3,064,597.
- The System's long-term portion of the debt decreased to \$698,969, a reduction of \$171,878 from last year's \$870,787.

Overview of Financial Statements

The System's principal activities of providing natural gas and water services are accounted for in a single proprietary fund – the enterprise fund – for which basic financial statements are prepared. The basic financial statements are comprised of three parts: 1) management's discussion and analysis, 2) the financial statements, and 3) notes to the financial statements. This report also includes an optional section that presents detailed summaries and schedules of selected financial data.

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

The basic financial statements provide both the short-term and long-term financial information about the System's financial activities, all of which are operated like commercial enterprises. These statements report information about the System using full accrual accounting methods and

economic resources form as utilized by similar business activities in the private sector. Information concerning all of the System's financial and capital assets and liabilities, both short-term and long-term, are included. All revenues and expenses received during the year, regardless of when cash is received or paid, are reported. Rate-regulated accounting principles applicable to the private sector, however, are not used by government utilities.

The basic financial statements of the System include a statement of net assets; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements, which are described as follows:

- The statement of net assets presents the financial position of the System on a full accrual, historical cost basis. This statement provides information about the nature and amount of resources and obligations at year-end.
- The statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the 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 the related cash flows. This statement also provides certain information about the System's recovery of its cost. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting standards. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.
- The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.
- The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The financial statements were prepared by the System's staff from the detailed books and records of the System. The financial statements were audited and adjusted, if material, during the independent external audit process.

Financial Analysis

The System's financial statements report its net assets and how they have changed over the reporting period. Net assets — the difference between assets and liabilities — may serve as a useful indicator of the System's financial position. Over time, increases or decreases in the System's net assets are a useful indicator of whether its financial health is improving or deteriorating, respectively. One also needs to consider, however, other non-financial factors such as changes in economic conditions, population growth, and new or changed governmental legislation to adequately assess its overall health.

The material portion of the System's net assets (which is 74.1% of total assets) reflects its investment in utility plant assets (e.g., land, buildings, utility plant, and equipment) and other machinery and equipment, less that portion of related debt used to acquire those assets that is still outstanding. These assets are used to provide utility services to our customers; consequently, they are not available for future spending. Although the System's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources (the sale of utility services), since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Statements of Net Assets

	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2002</u>
Current assets	\$ 902,716	\$ 902,968	\$ 881,918
Restricted assets	1,275,669	1,418,961	1,491,684
Capital assets, net	9,267,460	9,285,331	9,115,654
Other assets, net	4,261	5,897	8,192
Total assets	11,510,106	11,613,157	11,497,148
Current liabilities			
Payable from current assets	458,340	508,871	690,826
Payable from restricted assets	379,231	377,838	336,178
Long-term debt, net	696,807	879,787	1,081,622
Total liabilities	1,534,378	1,766,496	2,108,626
Net assets			
Invested in capital assets, net of related debt	8,569,717	8,407,180	7,711,310
Restricted for debt service	906,436	1,116,696	1,681,308
Unrestricted	433,953	789,281	604,730
Total net assets	\$ 9,910,106	\$ 10,313,157	\$ 9,997,348

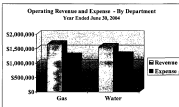
The System's net assets increased \$281,977 in fiscal year 2004, which is up from \$8,184,650 from fiscal year 2003. The most significant change in net asset position is from an increase in invested in capital assets, net of related debt, in the amount of \$171,637. The majority of this increase is from the payment of \$113,000 of debt principal during the year.

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

	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2002</u>
Revenues:			
Charges for services			
Gas sales	\$ 1,637,614	\$ 1,321,981	\$ 1,279,309
Water sales	<u>1,287,239</u>	<u>1,401,863</u>	<u>1,529,311</u>
Total charges for services	<u>2,924,853</u>	<u>2,723,844</u>	<u>2,808,620</u>
Positive	76,879	25,194	51,064
Other revenues	181,141	161,198	188,143
Intergovernmental	148,197	68,876	92,680
Income revenue	<u>38,620</u>	<u>11,287</u>	<u>28,011</u>
Total revenues	<u>3,568,540</u>	<u>3,774,279</u>	<u>3,668,324</u>
Expenses:			
The department	1,221,641	1,181,469	1,179,672
Water department	1,276,405	1,394,841	1,696,039
General and administrative	681,012	695,951	679,669
Interest and debt expense	<u>96,540</u>	<u>91,623</u>	<u>92,824</u>
Total expenses	<u>3,275,600</u>	<u>3,363,924</u>	<u>3,648,204</u>
Income before contributions and transfers			
	292,940	244,214	612,719
Capital contributions			
	81,891	109,083	126,602
Transfers out			
	<u>—</u>	<u>—</u>	<u>18,234</u>
Increase in net assets	<u>\$ 38,231</u>	<u>\$ 324,208</u>	<u>\$ 459,087</u>

While the statement of net assets shows a snapshot of the System's financial position at the beginning and ending of the fiscal year, the above statement of revenues, expenses, and changes in net assets provides answers as to the nature and source of these changes. As can be seen above, income before contributions and transfers of \$292,940 and capital contributions of \$81,891 were the two sources of the increase in net assets in fiscal year 2004. A comparison of the revenues and expenses shows that the System's expenses increased by \$119,579 or 3.8% in fiscal year 2004 while the System's revenues increased by \$180,866 or 3.3% over fiscal year 2003. The combination of the increase in charges for services and intergovernmental revenue (mainly federal grants) and the increase in gas, water, and expense along with a decrease in capital contributions (transfers from other funds) makes up the majority of the net increase in net assets in fiscal year 2004 as compared to fiscal year 2003. The System continues to produce positive net income in fiscal year 2004 from its utility system operations.

The following is a summary of the operating revenue and expense for each of the System's departments:



The following is a summary of the composition of System's revenues by source:



Capital Assets

At the end of fiscal year 2003, the System's capital assets amounted to \$9,345,351, which is stated net of \$1,951,837 of accumulated depreciation. During fiscal year 2004, the net increase in capital assets was \$24,138, compared to \$162,677 invested in 2003. The net increase includes a net \$21,369 increase in construction in progress. Major capital events during the fiscal year include the following:

- Start of construction of improvements to the east bank raw water intake structure (no construction in progress).
- Installation of new and/or replacement of water and gas mains and fire hydrants at a cost of \$246,048.

Detailed changes in capital assets are provided in note 5 to the financial statements.

Debt Administration

At the end of the fiscal year, the System had \$496,989 in long-term debt outstanding, which is less long-term deferred amounts, the current portion of compensated absences, and current maturities in the amount of \$215,268, compared to \$874,787 at the end of the previous fiscal year. The reduction is primarily due to the payment of \$115,000 of principal on revenue bond obligations. The System did not issue additional long-term debt during the fiscal year.

At the present time, the System has no formal plans to pursue the issuance of any additional long-term debt. Management, however, continues to review and monitor current bond market conditions for evaluating the feasibility of restructuring any and all outstanding debt obligations if, and when, the opportunity presents itself and only after it is conclusively determined that it is financially feasible to pursue.

Economic Factors and Other Information

High natural gas prices continue to plague the System and local industries located in St. James Parish. Local industries relying on natural gas as a fuel or raw ingredient have reduced or curtailed production due to the high prices. High natural gas prices have caused the System problems providing gas to its customers at a reasonable cost. During the year, the System purchased gas at a low of \$5.48 per million cubic feet to a high of \$1.81 per million cubic feet, as compared to a low of \$1.88 and a high of \$7.48 during the previous fiscal year. The System continues to be a member of the Louisiana Municipal Gas Authority (LMGA), which pools its resources to purchase natural gas at discounted rates off the spot market price. Natural gas prices are again expected to increase during the winter of 2004-2005. The System, in conjunction with the LMGA, has purchased future gas deliveries and placed gas in storage at spot market prices that are expected to be lower than the winter prices.

Unaccounted for gas has been a concern of the System in previous years. Unaccounted for gas was 8.81% for the year ended June 30, 2003. For the year ended June 30, 2004, unaccounted for gas was 5.78%, a decrease of 35.7%. This is 8.45% greater than for the year ended June 30, 2002. Beginning with the fiscal year ended June 30, 2003, a program was initiated to control and reduce the System's unaccounted for gas. The program consists of the following:

1. Contracting with a consultant to provide assistance to the System to audit deliveries and billings from the System's gas provider.
2. A systematic replacement of older gas meters. It is expected that all meters 15 years old and older will be replaced within 4 to 5 years.
3. A restructuring of the natural gas billing system into three subsystems allowing for the monitoring of unaccounted for gas in smaller, localized areas.

During the year, 50 older gas meters were replaced. This, along with the monitoring of the deliveries and billings from the gas provider, is the main reason for the reduction in unaccounted for gas. The System will continue its program to control unaccounted for gas so that unaccounted for gas is held to an acceptable rate.

The System continues to partner with the St. James Parish Fireman's Association to fund fire protection improvements to the System. During the year, \$12,960 was transferred from the St. James Parish Council Public Safety Trust Fund for improvements, such as the replacement of undersized main water lines and the installation of additional fire hydrants. These transfers are recorded as capital contributions.

Contacting the System's Financial Management

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the St. James Parish Gas & Water Distribution System at (225) 562-2412 or the St. James Parish Finance Department at (225) 562-2298.

ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA

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STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

ASSETS	2004	2005
CURRENT ASSETS		
Cash and cash equivalents	\$ 335,455	\$ 331,455
Accounts receivable	318,272	377,033
Inventories	155,336	128,175
Prepaid insurance	55,852	181,029
Total current assets	864,915	817,692
 NONCURRENT ASSETS		
Restricted assets:		
Cash and cash equivalents	683,711	579,438
Certificates of deposit	263,086	238,008
Investments	344,324	340,153
	1,291,121	1,157,600
Capital assets, net	9,303,469	9,330,310
Other assets, net	4,291	5,862
Total noncurrent assets	10,598,881	10,793,770
TOTAL ASSETS	11,413,215	11,602,372

(continued)

**St. James Parish Gas and Water Distribution System
STATE OF LOUISIANA**

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**STATEMENTS OF NET ASSETS (CONTINUED)
JUNE 30, 2004 AND 2003**

LIABILITIES	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES (available from current assets)		
Accounts payable	293,712	304,074
Due to St. James Parish Council	89,790	307,034
Current maturities of advance from St. James Parish Council	50,000	50,000
Compensated absences	40,000	43,300
Accrued expenses	60,672	61,771
Total current liabilities (payable from current assets)	<u>434,174</u>	<u>666,179</u>
CURRENT LIABILITIES (available from restricted assets)	<u>379,328</u>	<u>577,038</u>
LONG-TERM DEBT, NET	<u>694,905</u>	<u>874,787</u>
TOTAL LIABILITIES	<u>1,508,407</u>	<u>2,118,004</u>
 NET ASSETS		
NET ASSETS		
Invested in capital assets, net of related debt	8,510,717	8,163,280
Restricted for debt service and capital improvements	988,050	1,134,640
Unrestricted	438,473	283,120
TOTAL NET ASSETS	<u>\$ 9,937,240</u>	<u>\$ 9,581,040</u>

The accompanying notes are an integral part of these statements.

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

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**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
YEARS ENDING JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<u>OPERATING REVENUES</u>		
Charges for services		
Gas sales	\$ 1,627,614	\$ 1,521,861
Water sales	1,555,288	1,681,867
Fees/tilts	78,879	55,165
Miscellaneous	150,340	163,168
Total operating revenues	<u>3,392,121</u>	<u>3,262,061</u>
<u>OPERATING EXPENSES</u>		
Gas department		
Gas purchases	548,578	642,699
Wages	124,872	168,472
Employee benefits	48,608	47,218
Retirement	14,778	12,097
Repairs and maintenance	42,300	78,218
Depreciation	42,210	39,681
	<u>1,219,646</u>	<u>1,188,465</u>
Water department		
Chemicals	82,704	77,680
Wages	400,600	392,718
Employee benefits	101,613	86,392
Retirement	39,097	36,418
Utilities	75,780	74,844
Repairs and maintenance	234,913	236,168
Depreciation	313,278	296,178
	<u>1,775,485</u>	<u>1,759,494</u>

(continued)

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

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**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
General and administrative		
Wages	168,083	162,966
Bad debts	4,882	2,947
Repairs and maintenance	62,094	62,756
Office	114,771	124,686
Insurance	124,756	182,126
Retirement	14,508	11,817
Employee benefits	87,776	127,266
Contracted services	61,546	50,204
Depreciation and amortization	<u>25,628</u>	<u>27,729</u>
	<u>685,053</u>	<u>686,591</u>
 Total operating expenses	 <u>3,353,658</u>	 <u>3,084,497</u>
 Operating income	 <u>213,402</u>	 <u>328,522</u>
 <u>NONOPERATING REVENUES (EXPENSES)</u>		
Intergovernmental	148,097	68,878
Interest revenue	18,429	18,287
Interest expense	<u>(18,245)</u>	<u>(25,427)</u>
Total nonoperating revenues (expenses)	<u>148,281</u>	<u>61,738</u>
 Income before contributions and transfers	 361,683	 390,260
Capital contributions	<u>83,895</u>	<u>108,683</u>
 <u>CHANGE IN NET ASSETS</u>	 <u>445,578</u>	 <u>498,943</u>
 <u>TOTAL NET ASSETS, BEGINNING</u>	 <u>3,884,611</u>	 <u>3,328,713</u>
 <u>TOTAL NET ASSETS, ENDING</u>	 <u>\$ 4,330,189</u>	 <u>\$ 3,827,656</u>

The accompanying notes are an integral part of these statements.

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

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**STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 1,176,240	\$ 1,254,733
Receipts from interafed services provided	28,700	31,833
Payments to suppliers	(1,208,671)	(1,278,688)
Payments to employees	(766,507)	(704,177)
Payments for interafed services used	(17,276)	(32,448)
Net cash provided by operating activities	<u>479,273</u>	<u>269,253</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Advances from other funds	-	198,619
Deficity from governmental agencies	94,282	68,879
Payments on advances from other funds	<u>(10,000)</u>	<u>(58,000)</u>
Net cash (used in) provided by noncapital financing activities	<u>44,282</u>	<u>109,498</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(\$44,189)	(\$11,742)
Principal paid on revenue bond maturities	(\$11,000)	(\$95,000)
Interest paid on revenue bonds	(\$4,758)	(\$6,188)
Capital contributed by governmental agencies	33,715	-
Capital contributed by St. James Parish Council	<u>83,852</u>	<u>300,000</u>
Net cash used in capital and related financing activities	<u>(62,380)</u>	<u>(73,930)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of certificates of deposit	230,000	240,000
Purchase of certificates of deposit	(\$61,000)	(\$19,000)
Maturities (purchase) of investments	(3,301)	31,371
Interest received	<u>8,459</u>	<u>14,014</u>
Net cash (used in) provided by investing activities	<u>(28,842)</u>	<u>16,385</u>
Net (decrease) increase in cash and cash equivalents	<u>(11,949)</u>	<u>2,114</u>
Cash and cash equivalents - beginning of year	1,084,816	1,012,882
Cash and cash equivalents - end of year	<u>\$ 1,072,867</u>	<u>\$ 1,014,996</u>

(continued)

ST. JAMES PARISH GAS AND POWER DISTRIBUTION SYSTEM
STATE OF LOUISIANA

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STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 203,861	\$ 229,831
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	400,484	370,868
Provision for uncollectible accounts	7,838	(1,246)
Loss on disposal of capital assets	637	941
Change in assets and liabilities:		
Accounts receivable	12,228	(11,828)
Due from St. James Parish Council	-	2,888
Inventory	(28,588)	16,146
Prepaid insurance	2,164	(20,888)
Accounts payable	(98,962)	46,287
Due to St. James Parish Council	(17,278)	(20,448)
Commodities accounts	(26,895)	18,378
Accrued expenses	5,181	9,455
Customer deposits	13,178	19,821
Net cash provided by operating activities	\$ 478,277	\$ 398,520
Cash and cash equivalents for cash flow statement include:		
Cash and cash equivalents	\$ 356,495	\$ 333,408
Restricted assets:		
Cash and cash equivalents	661,715	875,408
Total cash and cash equivalents	\$ 1,018,210	\$ 1,208,816

The accompanying notes are an integral part of these statements.

ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting entity

The St. James Parish Gas and Water Distribution System (System) was established June 2, 1994 by the St. James Parish Police Jury and later acknowledged by the St. James Parish Council.

The financial statements of the System are an enterprise fund of the St. James Parish Council. The St. James Parish Council issues financial statements as of December 31.

St. James Parish Gas and Water Distribution System supplies water and gas to the residents of St. James Parish in the State of Louisiana.

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The System applies all applicable GASB pronouncements as well as any of the following pronouncements issued on or before November 30, 1997: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure unless those pronouncements conflict with or contradict GASB pronouncements.

Fund accounting

The System is operated as an enterprise fund which is intended by the local governing body to recover through user charges the costs (expenses including depreciation) of retirement of indebtedness and of providing goods and services to the general public on a continuing basis.

Use of estimates

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

ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Capital assets

Capital assets are stated at cost and depreciated using the straight-line method over the following estimated useful lives:

Utility plant, distribution systems and components	5-50 years
Office furniture, fixtures and equipment	5-15 years
Transportation equipment	5-8 years

Improvements and betterments to capital assets over \$5,000 are capitalized. The System repairs public streets or infrastructure fixed assets (i.e. gas and water lines) that are inseparable. Expenditures for repairs and maintenance which do not extend the life of the applicable assets are charged to expenses as incurred. Upon retirement or disposal of an asset, the cost of the asset and the accumulated depreciation are removed from the books and any resulting gain or loss is included in the statement of revenues and expenses.

Bad debts

The System has established an allowance for uncollectible customer accounts based upon past experience.

Inventories

Materials and supplies inventories are stated at the lower of cost (weighted moving average) or market. Gas purchased and in the System's lines is expensed when purchased. Water produced by the System is expensed when purified.

Unbilled revenue

Gas and water customers are billed at various times during the month; therefore, a certain amount of unbilled revenue exists at year end. This amount has been accrued at year end.

Capitalized interest

The System's policy is to capitalize construction period interest, if any. No interest was capitalized for the year ended June 30, 2004. For the year ended June 30, 2003, \$22,189 of interest was capitalized.

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

For purposes of the statement of cash flows, the System considers all highly liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents.

Investments

State statutes authorize St. James Gas and Water Distribution System to invest in United States bonds, treasury notes and bills, or certificates or time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. In addition, local governments in Louisiana are authorized to invest in the Louisiana Asset Management Pool Inc. (LAMAP), a nonprofit corporation formed by an initiative of the State Treasurer and organized under the laws of the State of Louisiana, which operates a local government investment pool. Investments are stated at cost. Market value is not materially different from cost.

Revenues and expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the System. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions.

Concentration of credit risk

Financial instruments that potentially subject the System to concentrations of credit risk consist principally of trade accounts receivable. The System's revenues are generated in St. James Parish, Louisiana. The System does not require collateral from its customers in access trade accounts receivable. However, customers' utility deposits will be applied to unpaid accounts receivable balances.

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

4. Summary of Short-Term Accounting Policies (continued)

Annual and sick leave

The System employees earn from 12 to 18 days of both annual and sick leave each year, depending upon length of service. Sick leave may be accumulated without limitation; however, annual leave may not be carried forward from one year to the next unless approved by the Parish President. Upon retirement, unused accumulated sick leave from 15 to 60 days depending on length of service shall be paid to the employee at the employee's current rate of pay. Any unused annual leave is paid to the employee upon retirement or termination.

The cost of leave privileges, computed in accordance with the certification, is recognized as a current year expense.

Reclassified Accounts

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

5. Cash and cash equivalents

Cash and cash equivalents are stated at cost, which approximates market. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the bank. 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 June 30, 2004 and 2003 the book balance of the System's deposits (including certificates of deposit) at financial institutions was \$1,311,234 and \$1,454,514, respectively and the bank balance was \$1,497,215 and \$1,342,688, respectively.

Deposits at June 30, 2004 are secured as follows:

	Insured (FDIC)	Collateralized with securities held by the pledging financial institutions' trust depository	Total
Cash	\$ 200,000	\$ 911,234	\$ 1,111,234
Certificates of deposit	-	383,980	383,980
	<u>\$ 200,000</u>	<u>\$ 1,295,214</u>	<u>\$ 1,495,214</u>

ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Cash and cash equivalents (continued)

Deposits in the amount of \$118,891 are uncollateralized at June 30, 2004.

Deposits at June 30, 2003 are secured as follows:

	Invoiced (FDIC)	Collateralized with securities held by the pledging financial institution's trust Department	Total
Cash	\$ 200,000	\$ 959,689	\$ 1,159,689
Certificates of Deposit	-	250,000	250,000
	<u>\$ 200,000</u>	<u>\$ 1,189,689</u>	<u>\$ 1,389,689</u>

Even though the pledged securities are considered uncollateralized (Category 7) under the provisions of GASB Statement 3, Louisiana Revised Statute 38:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 90 days of being notified by the System that the fiscal agent has failed to pay deposited funds upon demand.

2. Investments

Investments held at June 30, 2004 and 2003 include \$144,854 and \$141,553, respectively, in the Louisiana Asset Management Pool (LAMAP), a local government investment pool (see Summary of Significant Accounting Policies). In accordance with GASB Codification Section 180.120, the investment in LAMAP at June 30, 2004 and 2003 is not categorized in the three risk categories provided by GASB Codification Section 180.125 because the investment is in the pool of funds and, therefore, not reinforced by securities that exist in physical or book entry form.

LAMAP is administered by LAMP Inc., a nonprofit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high-quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LRA-R.S. 33:2105. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. government, or one of its agencies, corporations, or instrumentalities, as well as repurchase agreements collateralized by these securities.

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

3. Investments (continued)

Effective August 1, 2001, LAMP's investment guidelines were amended to permit the investment in government-only money market funds. In its 2001 Regular Session, the Louisiana Legislature (Senate Bill No. 512, Act 701) enacted L.S.A.-RS 10:2933 (A)(7)(b) which allows all municipalities, parishes, school boards, and any other political subdivisions of the State to invest in "investment grade (A-1/P-1) commercial paper of domestic United States corporations." Effective October 1, 2001, LAMP's Investment Guidelines were amended to allow the limited investment in A-1 or A-1+ commercial paper.

The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their accounts balances. The investments in LAMP are stated at fair value based on quoted market rates. The fair value is determined on a weekly basis by LAMP and the value of the position in the original investment pool is the same as the value of the pool shares.

LAMP, Inc. is subject to the regulatory oversight of the state treasurer and the board of directors. LAMP is not registered with the SEC as an investment company.

4. Accounts Receivable

Accounts receivable consist of the following:

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Gas and water sales	\$ 321,716	\$ 118,238
Debtors in utility property	36,231	29,947
Less allowances for doubtful accounts	<u>(31,954)</u>	<u>(38,944)</u>
	325,993	109,241
Accrued interest receivable	1,238	1,322
	<u>\$ 327,231</u>	<u>\$ 110,563</u>

ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

5. Restricted Assets

The 1973 Series, 1988 Refunding Series and 1997 Refunding Series bond resolutions established the following funds:

Sinking Fund

This fund was established to provide for the payments of bond principal and interest. At June 30, 2004, the Sinking Fund had investments equal to its required balance. As of June 30, 2003, the System was not in compliance with the provisions of the revenue bond covenants that require amounts to be transferred to the sinking fund in an amount equal to 1/6th of the next interest payment and 1/12th of the next principal payment monthly. As of June 30, 2003 the System had only \$165,492 invested in the Sinking Fund (required balance was \$186,473). In August 2003, the System transferred an additional \$20,981 to the sinking fund to correct this deficiency.

Reserve Fund

This fund was established for the payments of bond principal and interest if the Sinking Fund is not capable of meeting the payments. The bond covenants require monthly deposits to the Reserve Fund in an amount that will increase the total amount on deposit, within a period not exceeding five years, to a sum equal to the highest principal and interest requirements in any succeeding fiscal year on the 1973 Series, 1988 Refunding Series and the 1997 Refunding Series revenue bonds. For the fiscal year ending June 30, 2004, the highest principal and interest amount that will fall due is \$148,290, occurring in the fiscal year ending June 30, 2008. For the fiscal year ending June 30, 2003, the highest principal and interest amount that will fall due is \$361,538, occurring in the fiscal year ending June 30, 2004. At June 30, 2004 the Reserve Fund had investments in excess of its required balance by \$215,685. At June 30, 2003, the System had only \$344,378 invested in the Reserve Fund and therefore, was not in compliance with the provisions of the revenue bond covenants. In September 2003, the System transferred an additional \$17,160 to the Reserve Fund to correct this deficiency.

Capital Addition and Contingency Fund

This fund was established to provide for extensions, additions, improvements, renewals and replacement of the gas and water distribution system. It may also be used for bond maturity payments and interest payments if the Sinking Fund and Reserve Fund are not capable of meeting the payments. The 1973 Series and the 1997 Refunding Series revenue bonds require 5% of the gross revenue of the System collected be deposited to the fund after the required deposits to the Sinking Fund and Reserve Fund have been made.

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

5. Restricted Assets (continued)

Restricted assets consist of the following:

	Interest Rate %	Maturity Date	June 30	
			2004	2003
Sinking fund				
Money market	.47*	-	\$ 64,220	\$ 161,682
Reserve fund				
Money market	.47*	-	20,665	1,825
LAMP	1.11*	-	344,254	341,224
			<u>364,919</u>	<u>343,109</u>
Capital additions and contingencies fund				
Money market	.47*	-	559,111	625,591
Total restricted revenue bonds			<u>559,111</u>	<u>1,128,171</u>
Customer Accounts				
Cash	.05*	-	15,702	21,498
Certificate of deposit	1.15	7/3/04	265,000	258,000
			<u>280,702</u>	<u>279,498</u>
Total restricted assets			<u>\$ 1,270,568</u>	<u>\$ 1,411,966</u>

*Interest rate is a floating rate and interest rate shown is the current rate at June 30, 2004.

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Balance June 30, 2003	Additions	(Retirements)	Balance June 30, 2004
Gas distribution system	\$ 1,378,110	\$ 93,187	\$ (3,748)	\$ 1,467,549
Water distribution system	14,489,295	181,058	(3,399)	14,666,954
Office furniture, fixtures, and equipment	373,347	34,959	-	408,306
Transportation equipment	261,304	53,693	-	315,000
Total capital assets being depreciated	17,502,056	372,997	(3,147)	17,871,906
Accumulated depreciation	(7,953,657)	(289,628)	8,318	(8,144,967)
Total capital assets being depreciated, net	9,548,399	(86,631)	(257)	9,461,511
Construction in progress	16,882	78,292	(176,624)	48,550
	<u>\$ 9,565,281</u>	<u>\$ 88,660</u>	<u>\$ (283,981)</u>	<u>\$ 9,369,960</u>

Capital asset activity for the year ended June 30, 2003 was as follows:

	Balance June 30, 2002	Additions	(Retirements)	Balance June 30, 2003
Gas distribution system	\$ 1,363,677	\$ 9,478	\$ (13,307)	\$ 1,459,848
Water distribution system	13,994,945	489,044	(14,472)	14,469,517
Office furniture, fixtures, and equipment	373,778	53,608	-	427,386
Transportation equipment	261,900	23,148	(18,738)	266,310
Total capital assets being depreciated	16,294,299	665,278	(32,517)	17,027,060
Accumulated depreciation	(7,499,414)	(371,700)	44,860	(7,826,254)
Total capital assets being depreciated, net	8,794,885	293,578	(87,657)	8,990,804
Construction in progress	473,940	509,717	(284,347)	699,310
	<u>\$ 9,268,825</u>	<u>\$ 803,295</u>	<u>\$ (372,004)</u>	<u>\$ 9,699,116</u>

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

6. Capital Assets (continued)

During the years ended June 30, 2004 and 2003, depreciation was charged to operating expenses as follows:

	Year Ended June 30	
	2004	2003
Gas department	\$ 42,218	\$ 38,000
Water department	123,578	296,178
General and administrative	33,833	35,114
	<u>\$ 399,629</u>	<u>\$ 371,292</u>

7. Other Assets

Included in other assets are costs incurred in connection with the issuance of revenue bonds. Bond debt costs are amortized ratably in relation to the principal maturities of the underlying bonds. Bond debt costs amortized to general and administrative expenses for the years ended June 30, 2004 and 2003 were \$1,366 and \$2,213, respectively.

Other assets consist of the following:

	June 30	
	2004	2003
Bond debt costs	\$ 119,404	\$ 125,404
Less accumulated amortization	(118,048)	(123,282)
Contract deposits	345	245
	<u>\$ 4,301</u>	<u>\$ 6,967</u>

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

K. Employee Retirement System and Plan

Substantially all employees of the System are members of the Parishial Employees Retirement System of Louisiana (PERSL), a multiple-employer (cost-sharing), public employee retirement system (PERS), controlled and administered by a separate board of trustees. The PERSL is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the System are members of Plan A.

All permanent employees working at least 35 hours per week who are paid wholly or in part from System funds are eligible to participate in the PERSL. Under Plan A, employees who retire at or after age 60 with at least 15 years of creditable service, at or after age 55 with at least 25 years of creditable service, or at any age with at least 30 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 75% of their final average salary for each year of creditable service. However, for those employees who were members of the supplemental plan only prior to January 1, 1986, the benefit is equal to one percent of their final average salary plus \$24 for each year of supplemental plan only service earned prior to January 1, 1986. Final average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above and do not withdraw their employee contributions may retire at the ages specified above and receive the benefit accrued to their date of termination. The PERSL also provides death and disability benefits. Benefits are established by state statute.

PERSL issues an annual publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Parishial Employees' Retirement System, Post Office Box 14619, Baton Rouge, Louisiana 70898-0619, or by calling (225) 928-1361.

Funding Policy. Under Plan A, members are required by state statute to contribute 9.5 percent of their annual covered salary and the System is required to contribute at an actuarially determined rate for the years ending June 30, 2004 and 2003. The current rate for the System is 11.75 and 7.75 percent of annual covered payroll for the years ending June 30, 2004 and 2003, respectively. Contributions to the PERSL include one-fourth of one percent of the taxes shown to be collectible by the tax rolls of each parish, except Orleans and East Baton Rouge Parishes. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan. The contribution requirements of plan members and the System are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:183, the employee contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The System's contributions to PERSL under Plan A for the years ending June 30, 2004, 2003, and 2002 were \$135,992, \$119,325, and \$111,837, respectively, equal to the required contributions for each year.

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

9. Deferred Compensation Plan

The employees of the System may participate in a deferred compensation plan offered by the St. James Parish Council. The plan was created in accordance with Internal Revenue Code Section 457 and is available to all System employees. The plan permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency.

All permanent full time employees of the System are eligible to participate in the voluntary matching deferred compensation program offered by the St. James Parish Council. The program provides a yearly matching contribution based on the employee's length of service. The maximum yearly matching contribution by the System is \$2,000 per employee. The System's contributions to the plan for the years ended June 30, 2004, 2003, and 2002 were \$21,289, \$11,889, and \$16,542, respectively.

10. Current Liabilities (Payable from Restricted Assets)

Current liabilities (payable from restricted assets) consist of the following:

	June 30	
	2004	2003
Current liabilities of Revenue Bonds		
1973 Series	\$ -	\$ 128,000
1997 Series	195,000	95,000
	195,000	223,000
Less current deferred amount on refunding	(9,957)	(11,793)
Accrued interest on Revenue Bonds	3,652	4,726
Customers' deposits	282,140	268,993
	\$ 370,835	\$ 574,926

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

11. Long-Term Debt

Long-term debt consists of the following:

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Revenue bonds:		
\$1,000,000, 1973 Serial bonds due in annual installments of \$200,000 at December, 2003, at 6% interest	\$ -	\$ 200,000
\$900,000, 1997 Refunding Serial bonds due in annual installments of \$100,000 to \$140,000 through December, 2007, at 7.5% interest	480,000	500,000
Advance from St. James Parish Council:		
Advance from St. James Parish Council due in semiannual installments of \$15,000 in July and January through July, 2008, at no interest	106,977	106,977
Compensated absences	<u>130,200</u>	<u>140,233</u>
	917,177	1,087,210
Less long-term deferred amount on refunding	18,268	18,225
Less current maturities included in current liabilities (see note 14)	20,000	20,000
Less current compensated absences	45,000	45,200
Less current maturities included in restricted liabilities (see note 18)	<u>185,000</u>	<u>215,000</u>
	<u>\$ 646,909</u>	<u>\$ 813,785</u>

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

11. Long-Term Debt (continued)

The changes in long-term debt for the year ended June 30, 2004 were as follows:

	July 1, 2003	Additions	Reductions	June 30, 2004	Due Within One Year
Revenue Bonds	\$ 800,000	\$ -	\$ (311,000)	\$ 489,000	\$ 100,000
Less deferred amount on refunding	(35,334)	-	31,700	(24,214)	(2,077)
Advance	356,877	-	(28,000)	328,877	50,000
Compensated amounts	182,231	-	(28,000)	154,231	48,000
Long-term Debt	\$ 1,277,284	\$ -	\$ (283,354)	\$ 993,931	\$ 191,000

The changes in long-term debt for the year ended June 30, 2003 were as follows:

	July 1, 2002	Additions	Reductions	June 30, 2003	Due Within One Year
Revenue Bonds	\$ 1,095,000	\$ -	\$ (205,000)	\$ 890,000	\$ 115,000
Less deferred amount on refunding	(48,934)	-	13,810	(25,124)	(11,704)
Advance	300,251	194,619	(50,000)	444,870	50,000
Compensated amounts	130,699	19,115	-	149,814	40,000
Long-term Debt	\$ 1,477,026	\$ 213,734	\$ (211,810)	\$ 1,479,281	\$ 194,496

In fiscal year ending June 30, 1999, the Distribution System defeased \$831,261 of the 1989 Series Refunding Bonds by plating the proceeds of new bonds with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the System's financial statements. As of June 30, 2004, the outstanding principal balance of the defeased revenue bonds is \$459,018.

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

ROUTE TO FINANCIAL STATEMENTS

11. Long-Term Debt (continued)

Debt Redemption Provisions

1987 Refunding Series revenue bonds maturing December 1, 2000 and thereafter are callable for redemption in inverse order at any time on or after December 1, 2001, at the principal amount and accrued interest to the date fixed for redemption.

The annual retirements to amortize all debt outstanding as of June 30, 2000 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2001	\$ 125,000	\$ 32,407	\$ 157,407
2002	165,000	24,188	189,188
2003	175,000	15,187	190,187
2004	190,000	8,250	198,250
2005	50,000	-	50,000
2010-2011	96,877	-	96,877
	<u>\$ 751,877</u>	<u>\$ 77,062</u>	<u>\$ 828,939</u>

12. Risk Management

The System is exposed to various risks of loss related to theft, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The System carries commercial insurance to cover these risks, including workers' compensation. Settled claims have not exceeded their commercial coverage in any of the past three fiscal years.

The System joined with the St. James Parish Council to form a Group Hospitalization Claims Clearing Fund (Fund). The Fund is an internal service fund of the Council used to account for and finance its uninsured risks of loss related to employee health and medical claims. The System pays monthly premiums to the Fund for its health and medical insurance coverage based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for future catastrophic losses. Under the program, the Fund provides coverage for up to a maximum of \$80,000 for each employee's health claims. The Council purchases insurance for claims in excess of coverage provided by the Fund.

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

13. Commitments

St. James Parish Gas and Water Distribution System is a member of the Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority). As a member of the Authority, the System agrees to purchase all of its gas supplies for resale to its customers through the Authority's gas distribution system. The Authority prepares an annual budget that contains an estimate of all of the Authority's operations, maintenance and general expenses relating to the operation and conduct of the business of the Authority during the year. The total amount set forth in the Annual Authority Budget is paid monthly by each member of the Authority based on a percentage of each member's cost of gas. This contract is renewed annually beginning October 1 and can be terminated by either party by giving written notice to the other party at least six months prior to termination.

14. Related-Party Transactions

St. James Parish Gas and Water Distribution System bills and collects payments for sewerage services to the customers of St. James Parish. These collections are then remitted to the St. James Parish Solid Waste Fund (a special revenue fund of the St. James Parish Council). The System makes a collection for on total amounts billed. For the years ended June 30, 2004 and 2003, the collection fee percentage was 17%. For the years ended June 30, 2004 and 2003, total billings were \$244,676 and \$242,568, respectively, and collection fees earned were \$28,332 and \$29,807, respectively. This income is included in miscellaneous income on the statement of revenues and expenses. Amounts remitted to St. James Parish Solid Waste Fund during the years ended June 30, 2004 and 2003 were \$132,174 and \$100,801, respectively. The balance owed to the St. James Parish Solid Waste Fund at June 30, 2004 and 2003 was \$18,754 and \$181,036, respectively.

During the year ended June 30, 2003, St. James Parish Gas and Water Distribution System entered into an agreement with the St. James Parish Fireman's Association for an amount up to \$100,000 to be advanced to the System for the construction of a clarifier at the east bank water treatment plant. The funds are available through the St. James Parish Public Safety Trust Fund. As of June 30, 2003 the total amount advanced was \$466,577. Current maturities of \$10,000 are included in current liabilities payable from current assets (see note 11).

15. Budgets

Operating and capital expenditures budgets are adopted by the St. James Parish Council on a cash basis. While not legally required, this budgetary information is employed as a management control device during the year. Comparison between actual and budgeted expenses is not a required presentation for an enterprise fund.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the President and Members
St. James Parish Council
Convent, Louisiana

We have audited the basic financial statements of St. James Gas and Water Distribution System of the St. James Parish Council, State of Louisiana as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated September 29, 2004. The financial information on pages XI to XI is presented for the purposes of additional analysis and is not a required part of the financial statements of St. James Parish Gas and Water Distribution System of the St. James Parish Council, State of Louisiana. Such information, except for that portion marked "Unaudited", has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Metairie, Louisiana
September 29, 2004

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

**SCHEDULE OF CHANGES IN ASSETS RESTRICTED
FOR REVENUE BOND DEBT SERVICE
YEAR ENDING JUNE 30, 1998**

	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Capital Addition and Contingency Fund</u>	<u>Total</u>
RESTRICTED ASSETS				
JUNE 30, 1997	<u>\$ 155,492</u>	<u>\$ 344,378</u>	<u>\$ 619,901</u>	<u>\$ 1,119,771</u>
RECEIPTS				
Interest on Investments	699	3,341	2,839	6,879
Transfers from:				
Operating account	<u>368,317</u>	<u>17,168</u>	<u>381,271</u>	<u>458,656</u>
Total receipts	<u>369,016</u>	<u>20,509</u>	<u>384,110</u>	<u>460,635</u>
Total available	<u>428,508</u>	<u>364,887</u>	<u>811,982</u>	<u>1,005,382</u>
DISBURSEMENTS				
Bond principal	315,000	-	-	315,000
Bond interest	48,317	-	-	48,317
Payment on advance from EPC	-	-	30,000	30,000
Capital expenditures and repairs	-	-	90,129	90,129
Transfers to:				
Operating account	-	-	112,660	112,660
Miscellaneous expenses	717	-	-	717
Total disbursements	<u>364,034</u>	<u>-</u>	<u>232,789</u>	<u>616,823</u>
RESTRICTED ASSETS				
JUNE 30, 1998	<u>\$ 64,474</u>	<u>\$ 364,819</u>	<u>\$ 580,211</u>	<u>\$ 989,504</u>

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

**SCHEDULE OF GAS UNACCOUNTED FOR
(IN THOUSAND CUBIC FEET)
(UNAUDITED)**

	Year Ended June 30	
	2004	2003
Gas purchased	140,855	135,693
Gas used	132,425	130,571
Gas unaccounted for	<u>8,430</u>	<u>15,122</u>
Percentage unaccounted for	<u>5.99%</u>	<u>11.14%</u>

**SCHEDULE OF WATER UNACCOUNTED FOR
(IN THOUSAND GALLONS)
(UNAUDITED)**

	Year Ended June 30	
	2004	2003
Measured water leaving plant	709,267	711,451
Water billed to customers	581,845	571,560
Backwash water used	8,481	70,180
Water used for fires and flushings	9,234	4,858
Total water accounted for	<u>599,565</u>	<u>596,658</u>
Water unaccounted for	<u>109,832</u>	<u>114,793</u>
Percentage unaccounted for	<u>15.47%</u>	<u>17.87%</u>

**UTILITY CUSTOMERS
(UNAUDITED)**

	Year Ended June 30	
	2004	2003
Water	3,293	3,294
Gas	2,686	2,687
Total	<u>5,979</u>	<u>5,981</u>

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

**SCHEDULE OF COST OF WATER PRODUCTION
(UNAUDITED)**

	Year Ended June 30	
	2004	2003
Mixed water leaving plant (in thousand gallons)	<u>719,387</u>	<u>711,451</u>
Water billed to customers (in thousand gallons)	<u>561,948</u>	<u>570,663</u>
Cost of water:		
Chemicals	\$ 82,704	\$ 77,681
Wages	409,608	392,719
Employee benefits	104,413	88,392
Retirement	39,193	38,418
Utilities	76,788	78,844
Repairs and maintenance	216,933	216,389
Depreciation	<u>315,178</u>	<u>296,178</u>
	<u>1,275,407</u>	<u>1,294,611</u>
General and administrative costs:		
Wages	82,125	81,648
Bad debts	3,304	4,593
Repairs and maintenance	11,882	11,230
Office	15,744	63,874
Insurance	60,413	32,442
Retirement	8,418	6,967
Employee benefits	42,618	62,286
Contracted services	28,812	11,842
Depreciation and amortization	<u>17,238</u>	<u>19,820</u>
	<u>305,567</u>	<u>311,262</u>
Total costs of production	<u>\$ 1,681,173</u>	<u>\$ 1,547,836</u>
Cost of one thousand produced gallons of water	<u>\$ 2.33</u>	<u>\$ 2.18</u>
Cost of one thousand billed gallons of water	<u>\$ 2.85</u>	<u>\$ 2.71</u>

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

INSURANCE COVERAGE

(JUNE 30, 1984)

(DOLLARS)

<u>Company</u>	<u>Coverage</u>	<u>Amount</u>	<u>Expiration Date</u>
Enrich-American Insurance Company; provides coverage on all of Parish property	Fire, lightning and extended coverage (90% co-insurance)		12/31/2004
	Water Plant No. 1		
	Building and machinery	\$ 450,000	
	Contents	\$ 244,000	
	Water Plant No. 2		
	Building and machinery	\$ 1,260,000	
	Contents	\$ 244,000	
	Water Towers		
	Covenoit, LA.	\$ 75,000	
	Union, LA.	\$ 75,000	
	South Vercherie, LA.		
	Large Tower	\$ 90,000	
	Small Tower	\$ 67,500	
	North Vercherie, LA.	\$ 67,500	
	Walcosa, LA.	\$ 67,500	
	Booster station, Covenoit, LA.		
	Building	\$ 1,000	
	Contents	\$ 70,000	
	Warehouse		
	Building	\$ 27,000	
	Contents	\$ 70,000	
Office, Vercherie, LA.			
Building	\$ 90,000		
Contents	\$ 70,000		
Parish Government Risk Management Agency	Workers Compensation Employee's Liability	Statutory \$ 1,000,000	12/31/2004

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

**INSURANCE COVERAGE
(JUNE 30, 2004)
(UNAUDITED)**

<u>Company</u>	<u>Coverage</u>	<u>Amount</u>	<u>Expiration Date</u>
Fidelity American Insurance Company	Comprehensive automobile		07/1/2005
	Bodily injury/property damage Comprehensive (\$1,000 deductible)	\$ 1,000,000	
	Collision (\$1,000 deductible)	Actual value	
Kemper Insurance Company	Comprehensive general liability coverage including completed operations and explosion	\$ 1,000,000	07/14/2005
	Excess liability	\$ 1,000,000	07/14/2005
Fidelity American Insurance Company	Contractor equipment 1% of value deductible	\$ 75,000	7/5/2004

**INDEPENDENT AUDITORS' 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 President and Members
St. James Parish Council
Covington, Louisiana

We have audited the financial statements of the St. James Parish Gas and Water Distribution System of the St. James Parish Council, State of Louisiana, as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated September 29, 2004. We conducted our audits 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 St. James Gas and Water Distribution System'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 these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2004-1 and 2004-2.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered St. James Parish Gas and Water Distribution System'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 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 use of management, the St. James Parish Gas and Water Distribution System, St. James Parish Council and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Robert M. Mitchell

Monroe, Louisiana
September 29, 2004

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDING JUNE 30, 2004**

FINDINGS - FINANCIAL STATEMENT AUDIT

2004-1 Procurement of Equipment

Condition: The procurement of equipment in the amount of \$23,150 was not advertised and therefore not awarded to the lowest bidder.

Criteria: Louisiana Public Bid Law requires that purchases exceeding \$20,000 must be procured by advertising and awarding the purchase contract to the lowest responsive and responsible bidder.

Effect: Because of the failure to advertise for bids, purchase price for equipment could be higher than if bid.

Cause: The equipment that was purchased was needed immediately for an inspection.

Recommendation: Procedures should be implemented requiring approval by management of purchases of equipment, materials and supplies, including procedures to ensure that bids are obtained for purchases that exceed \$20,000.

**Management's Response
and Corrective Action
Plan:**

Management plans to adopt procedures to approve purchases of equipment, materials and supplies that includes bid procedures for purchases over \$20,000.

ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS/CONTINGENTS
YEAR ENDED JUNE 30, 2004

FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2004-2 Collateralization on Deposits

Condition:	At June 30, 2004 deposits were collateralized by \$150,001.
Criteria:	Louisiana Revised Statute 99:1225 requires the amount of security be equal to one hundred percent of the amount of collected funds on deposit to the credit of each depositing authority.
Effect:	Because of the failure to provide adequate collateralization, the deposits are uninsured by \$150,001.
Cause:	The certificate of deposit in the amount of \$260,000 was included by the bank in determining the amount that should be collateralized.
Recommendation:	The bank should be notified to include all deposits of the entity in determining the amount of collateralization. Procedures should be implemented requiring management to perform a periodic review of the deposit collateralization.

**Management Response
and Corrective Action
Plan**

Management notified the bank to include the certificate of deposit in the determination of collateralization of deposits. Management will implement procedures to periodically review adequate collateralization of deposits.

**ST. JAMES PARISH GAS AND WATER DISTRIBUTION SYSTEM
STATE OF LOUISIANA**

**SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2003**

2003-1 Required Balance in Bond Sinking Fund

Condition: The required balance in the bond sinking fund should have been \$188,475 at June 30, 2003. The actual amount in the sinking fund at June 30, 2003 was \$65,492. A deficit of \$122,983 existed in the sinking fund at June 30, 2003.

Recommendation: The auditor recommended procedures be implemented that require management approval of transfers to the sinking fund prior to the transfer and a review should be made monthly to ensure that the proper balance in the sinking fund is maintained.

Current Status: The recommendation was adopted in August, 2003. No similar findings were noted in the 2004 audit.

2003-2 Required Balance in Bond Reserve Fund

Condition: The required balance in the bond reserve fund should have been \$261,535 at June 30, 2003. The actual amount in the reserve fund at June 30, 2003 was \$44,378. A deficit of \$217,156 existed in the reserve fund at June 30, 2003.

Recommendation: The auditor recommended procedures be implemented that require management approval of transfers to the reserve fund prior to the transfer and a review should be made monthly to ensure that the proper balance in the reserve fund is maintained.

Current Status: The recommendation was adopted in August, 2003. No similar findings were noted in the 2004 audit.