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SEWERAGE DISTRICT NO. 4 OF THE PARISH
 OF ST. MARY, STATE OF LOUISIANA
 Annual Component Unit Financial Statements
 with Independent Auditors' Report
 and
 Independent Auditors' Reports on Internal
 Accounting Control and Compliance
 For the Nine Months Ended June 30, 1996

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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

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FINANCIAL INFORMATION SECTION



INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Sewerage District No. 4
of the Parish of St. Mary,
State of Louisiana
Amelia, Louisiana

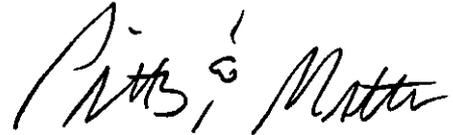
We have audited the accompanying general purpose financial statements of Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Council, as of June 30, 1996, and for the nine months then ended as listed in the financial information section of the foregoing table of contents. These general purpose financial statements are the responsibility of Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana as of June 30, 1996, and the results of its operations and cash flows of its proprietary fund for the nine months then ended in conformity with generally accepted accounting principles.

As further explained in Note 10, the District will be consolidated into a larger oversight district along with other sewer and water districts in the future.

In accordance with Government Auditing Standards, we have also issued a report dated October 10, 1996 on our consideration of Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana's internal control structure and a report dated October 10, 1996 on its compliance with laws and regulations.

A handwritten signature in cursive script, appearing to read "Pitts & Matter".

CERTIFIED PUBLIC ACCOUNTANTS

October 10, 1996

SEWERAGE DISTRICT NO. 4 OF THE PARISH
OF ST. MARY, STATE OF LOUISIANA
BALANCE SHEET
All Fund Types and Account Groups
June 30, 1996

	<u>PROPRIETARY</u> <u>FUND TYPE</u> <u>ENTERPRISE</u> <u>FUND</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 137,609
Investments	382,106
Receivables (net of allowance for uncollectibles of \$942)	11,294
Other assets	83
Property, plant and equipment (net of accumulated depreciation)	<u>1,813,480</u>
Total assets	<u>\$2,344,572</u>
<u>LIABILITIES, EQUITY AND OTHER</u> <u>CREDITS</u>	
Liabilities	
Accounts payable and accrued expenses	\$ 4,994
Deferred revenue	<u>2,570</u>
Total liabilities	<u>7,564</u>
Equity and other credits	
Contributed capital (net of amortization)	1,859,782
Retained earnings -	
Reserved for maintenance	7,252
Unreserved	<u>469,974</u>
Total equity and other credits	<u>2,337,008</u>
Total liabilities, equity and other credits	<u>\$2,344,572</u>

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

SEWERAGE DISTRICT NO. 4 OF THE PARISH
OF ST. MARY, STATE OF LOUISIANA

PROPRIETARY FUND TYPE - ENTERPRISE FUND
Statement of Revenues, Expenses, and Changes in Retained Earnings
For the Nine Months Ended June 30, 1996

Operating revenues		
Charges for services		\$ 93,866
Operating expenses		
Public works		
Depreciation	\$ 70,379	
Salaries and per diems	39,105	
Employee fringe	8,428	
Maintenance	8,090	
Utilities	13,629	
Professional services	42,906	
Office expense	1,024	
Insurance	3,892	
Contract labor	3,690	
Payroll taxes	2,079	
Pond testing fees	<u>5,364</u>	
Total operating expenses		<u>198,586</u>
Operating loss		(104,720)
Non-operating revenues (expenses)		
Ad valorem taxes	60,089	
Interest earned on investments	15,609	
Transfer to other governments	<u>(5,000)</u>	
Total non-operating revenues		<u>70,698</u>
Net loss		(34,022)
Depreciation of fixed assets acquired with contributed capital externally restricted for capital acquisitions and construction		<u>66,516</u>
Net increase in retained earnings		32,494
Retained earnings, beginning of year		<u>444,732</u>
Retained earnings, end of year		\$ <u>477,226</u>

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

SEWERAGE DISTRICT NO. 4 OF THE PARISH
OF ST. MARY, STATE OF LOUISIANA

PROPRIETARY FUND TYPE - ENTERPRISE FUND
Statement Of Cash Flows
For the Nine Months Ended June 30, 1996

Cash flows from operating activities:	
Cash received from customers	\$ 93,413
Cash payments to suppliers for goods & services	(83,476)
Cash payments to employees for services	(38,145)
Net cash used for operating activities	(28,208)
Cash flows from noncapital financing activities:	
Cash received from Ad Valorem taxes collected	60,089
Proceeds from sale of investments	<u>28,445</u>
Net cash provided by noncapital financing activities	<u>88,534</u>
Cash flows from capital and related financing activities:	
Cash paid for fixed assets	(4,800)
Net cash used for capital and related financing activities	(4,800)
Cash flows from investing activities:	
Cash received for interest earned	<u>15,609</u>
Net cash provided by investing activities	<u>15,609</u>
Net increase in cash equivalents	71,135
Cash and cash equivalents at beginning of year	<u>66,474</u>
Cash and cash equivalents at end of year	\$ <u>137,609</u>

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$(<u>104,720</u>)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	70,379
Change in assets and liabilities:	
Decrease in other assets	2,894
Increase in accounts receivable	(453)
Increase in accounts payable and accrued expenses	3,269
Increase in deferred revenue	<u>423</u>
Total adjustments	<u>76,512</u>
Net cash used by operating activities	\$(<u>28,208</u>)

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

SEWERAGE DISTRICT NO. 4 OF THE PARISH
OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements
June 30, 1996

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana was created by Ordinance No. 734 of the St. Mary Parish Police Jury, on April 23, 1969, for the purpose of establishing, acquiring, constructing, maintaining and operating a sewerage system for the benefit of the people of the District. The District encompasses all of the territory situated in Ward Nine of St. Mary Parish.

The financial statements of Sewerage District No. 4 of the Parish of St. Mary, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

In evaluating how to define the governmental unit, for financial reporting purposes, consideration has been given to the following criteria as set forth in GAAP:

- a. Financial benefit or burden
- b. Appointment of a voting majority
- c. Imposition of will
- d. Fiscally dependent

Based upon the above criteria, the District is a component unit and integral part of the St. Mary Parish Council (the primary government).

These financial statements include only the operations of the District.

B. Fund Accounting

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

The District's current operations require only the use of one fund, the enterprise fund.

Proprietary Fund

Enterprise Fund

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the determination of net income is necessary or useful to sound financial management.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components.

Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when resources are received by the District before it has a legal claim to them as when utility payments are received prior to the providing of the service. In subsequent periods, when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgets

The District is not required to adopt and did not adopt a budget for the nine months ended June 30, 1996.

E. Cash and Cash Equivalents, Investments

For financial statement purposes, cash and cash equivalents include demand deposits, money market accounts, and short-term investments with a maturity date within three months of the date acquired by the District.

Cash and cash equivalents and investments are stated at cost, which approximate market.

F. Fixed Assets

All fixed assets including the sewerage systems used in the proprietary fund type operations are included on the balance sheets of the fund. Depreciation of all exhaustible fixed assets used by the proprietary fund type operations is charged as an expense against operations and accumulated depreciation is reported on the balance sheet. Depreciation is computed using the straight-line method based on the estimated useful lives of the various assets.

G. Compensated Absences

No liability has been accrued for compensated absences on the financial statements because the amount is immaterial.

H. Fund Equity

Contributed capital recorded in the proprietary fund represents capital contributions received from other governments.

I. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation.

NOTE 2 - CASH AND CASH EQUIVALENTS, INVESTMENTS

The District may deposit funds with a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the union, or the laws of the United States. The District may also invest in time deposits or certificates of deposit of state banks organized under Louisiana law and national banks having principal offices in Louisiana.

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 pledged securities are held in the name of the pledging bank in a custodial bank that is mutually acceptable to the parties involved.

Under the provision of the GASB codification, accounts secured by pledged securities, which are not in the name of the governmental unit, are considered uncollateralized.

The following is a summary of the cash and cash equivalents and the related federal deposit insurance and related pledged securities as of June 30, 1996:

Cash and cash equivalents - stated value	<u>\$137,609</u>
Cash and cash equivalents - bank balance	\$142,144
Portion insured by federal deposit insurance	100,000
Collateralized by securities in the District's name held by the District or third parties	<u>NONE</u>
Balance uninsured and uncollateralized under GASB codification	42,144
Portion of deposits secured under Louisiana law	<u>42,144</u>
Amount unsecured under Louisiana law	<u>NONE</u>

At year end, the carrying amount of the District's investments was \$382,106, and was covered by federal depository insurance.

NOTE 3 - AD VALOREM TAXES

The District's property tax is levied in October of each year on the assessed value of property within the District's taxing area. Taxes are due and payable by December 31. The taxes are delinquent on January 1 at which time an enforceable lien attaches to the property. The taxes are collected on behalf of the District by the Sheriff and then remitted to the District.

NOTE 4 - FIXED ASSETS

A summary of the Enterprise Fund's fixed assets at June 30, 1996, follows:

	<u>Cost</u>	<u>Estimated Useful Life</u>
Land	\$ 75,000	--
Sewerage System	3,193,371	33 1/3 years
Improvements	5,171	15 years
Equipment, furniture and fixtures	<u>45,084</u>	5 years
	3,313,826	
Less: accumulated depreciation	<u>1,505,146</u>	
	<u>\$1,813,480</u>	

Depreciation expense related to the utilization of fixed assets for the nine months ended June 30, 1996, is approximately \$70,000.

NOTE 5 - CONTRIBUTED CAPITAL

The following is a summary of changes in contributed capital for the nine months ended June 30, 1996:

Contributed capital at October 1, 1995	\$ 1,926,298
Reduction:	
Depreciation of fixed assets acquired with contributed capital	(<u>66,516</u>)
Contributed capital at June 30, 1996	\$ <u>1,859,782</u>

NOTE 6 - COMPENSATION PAID BOARD MEMBERS

The following is a detail of the compensation paid board members for the nine months ended June 30, 1996:

Donald Patureau	\$360
John Richard	360
Charles Walters	<u>240</u>
	<u>\$960</u>

NOTE 7 - COMMITMENTS

Mandates by the Environmental Protection Agency and Louisiana Department of Environmental Quality require that the District upgrade its treatment facility to comply with stricter discharge requirements. The District is currently evaluating the methods available to achieve compliance with the mandates. Available methods range in estimated costs from approximately \$100,000 to \$250,000.

NOTE 8 - PENSION PLAN

The District adopted a Simplified Employee Pension or SEP, in May of 1992. Under a SEP, an individual retirement account (IRA) is set up for each participating employee and contributions are made directly into that IRA.

All employees 21 years of age or older who have been employed one year or more are covered under the plan, and eligible employee's benefits vest 100% upon meeting the above requirements. The District's current year contribution for the nine months ended June 30, 1996 is approximately \$1,100 based on 3.75% of participating employee's gross salary of approximately \$28,000 with participating employees contributing an equal amount. Total gross salaries for the District for the nine months ended June 30, 1996 are approximately \$38,000.

NOTE 9 - MAJOR CUSTOMER

Charges for services to two major customers, an offshore fabricator and a recycling facility, were approximately \$11,000 and \$12,000 respectively, for the nine months ended June 30, 1996, representing 12% and 13% respectively, of total charges for services.

NOTE 10 - SUBSEQUENT EVENT

Beginning in July, 1996, pursuant to an ordinance passed by the St. Mary Parish Council, the District, Waterworks District No. 3 of St. Mary Parish and portions of Sewerage District No. 1 of St. Mary Parish began joint operations as Consolidated Water and Sewerage District No. 1. As a result, the District will cease operating as a separate entity. Prior to the end of the year, the District transferred funds to the newly consolidated water and sewerage district to begin joint operations. This transfer is being accounted for as a non-operating expense of the current period.

In addition, the St. Mary Parish Council passed a resolution calling for the District to develop and implement a plan to generate funds which will be used by the Council to help pay a portion of bonded indebtedness. This bonded indebtedness was incurred by the Council in prior years for sewer construction.

INTERNAL ACCOUNTING CONTROL AND COMPLIANCE SECTION



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

October 10, 1996

Board of Supervisors
Sewerage District No. 4 of the Parish
of St. Mary, State of Louisiana
Amelia, Louisiana

We have audited the general purpose financial statements of Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana, a component unit of St. Mary Parish, as of, and for the nine months ended June 30, 1996, and have issued our report thereon dated October 10, 1996, which contained an additional paragraph describing the District's consolidation with other utility districts in the area.

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statements are free of material misstatement.

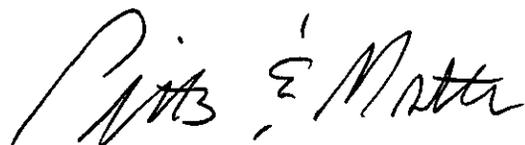
The management of Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of change in conditions or that the effectiveness of the design and operation of policy and procedure may deteriorate.

In planning and performing our audit of the general purpose financial statements of Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana for the nine months ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

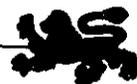
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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 structure and its operation that we consider to be material weaknesses as defined above.

A similar letter issued by us dated February 26, 1996, for the year ended September 30, 1995, reported no material weaknesses in internal accounting control.

This report is intended for the information of the management of the District, the Legislative Auditor of the State of Louisiana, and the Finance Committee of the St. Mary Parish Council. However, this report is a matter of public record and its distribution is not limited.



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED ON AN AUDIT OF
GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

October 10, 1996

Board of Supervisors
Sewerage District No. 4 of the Parish
of St. Mary, State of Louisiana
Amelia, Louisiana

We have audited the general purpose financial statements of Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana, a component unit of St. Mary Parish, as of and for the nine months ended June 30, 1996, and have issued our report thereon dated October 10, 1996, which contained an additional paragraph describing the District's proposed consolidation with other utility districts in the area.

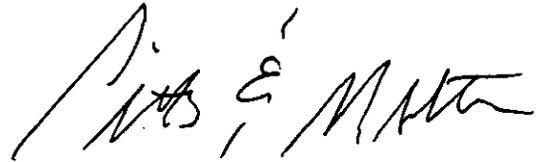
We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana is the responsibility of Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. 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 Governmental Auditing Standards.

A similar report issued by us dated February 26, 1996, for the year ended September 30, 1995 reported no instances of noncompliance.

This report is intended for the information of the management of the District, the Legislative Auditor of the State of Louisiana and the Finance Committee of the St. Mary Parish Council. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, appearing to read "P. E. Martin".

CERTIFIED PUBLIC ACCOUNTANTS