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**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**FINANCIAL STATEMENTS AND SCHEDULES**

**DECEMBER 31, 2005**

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**Postlethwaite & Netterville**

A Professional Accounting Corporation

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# SEWERAGE AND WATER BOARD OF NEW ORLEANS

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## Postlethwaite & Netterville

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### INDEPENDENT AUDITORS' REPORT

Members of the Board  
Sewerage and Water Board of New Orleans:

We have audited the basic financial statements of the Sewerage and Water Board of New Orleans as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Board's management. 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 *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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Sewerage and Water Board of New Orleans as of December 31, 2005 and 2004, and the results of its operations 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 and the Schedules of Funding Progress and Employer Contributions as listed on the accompanying table of contents, are not a required part of the basic financial statements but are 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 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 a report, dated May 15, 2007, on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were made for the purpose of forming an opinion on the 2005 and 2004 basic financial statements of the Board taken as a whole. The accompanying information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

*Postlethwaite & Netterville*

New Orleans, Louisiana  
May 15, 2007

## **SEWERAGE & WATER BOARD OF NEW ORLEANS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2005**

This section of the Sewerage & Water Board of New Orleans' (the Board) annual financial report presents a discussion and analysis of the Board's financial performance during the fiscal year that ended December 31, 2005. Please read it in conjunction with the Board's financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

Hurricane Katrina and the resulting flooding was the most significant event to occur during 2005. This event resulted in severe damage to assets resulting in a loss of \$49.2 million and significant decreases in the Board's revenues.

#### **Enterprise Fund**

The major highlights in the Board's enterprise fund were as follows:

#### **2005**

- The Board's additions to its major systems approximated \$124.8 million. Property damages from Hurricane Katrina resulted in property losses of \$49.2 million.
- The SELA project which is a major upgrade to the drainage system by the Corps of Engineers continued during 2005; \$1.9 million of additions to work in progress were recorded during the year.
- The Board refunded during July 2005 the \$137 million in short term bond anticipation notes originally issued in July 2004.
- Federal Emergency Management Agency (FEMA) Disaster Public Assistance grants expended totaled \$40.9 million, of which \$31.6 million were capital contributions and \$9.3 million were for operating, maintenance and debris removal expenses.

#### **2004**

- The Board's additions to its major systems approximated \$121 million.
- The SELA project which is a major upgrade to the drainage system by the Corps of Engineers continued during 2004; \$17.9 million of additions to work in progress were recorded during the year.
- The Board refunded during July 2004 the \$111,800,000 in short term bond anticipation notes originally issued in November 2003.
- The Board issued bond issues in December 2004 totaling \$58,200,000 including \$25,200,000 in short term bond anticipation notes; the proceeds of the issue are to be used to fund capital projects in the sewerage department.
- Capital contributions by others to finance construction of the Board's capital assets totaled \$22.1 million.

## **Pension Trust Fund**

### **2005**

The major highlight in the Board's pension trust fund was the continued improved financial performance in the convertible securities market, continued interest rate increases, and the resulting appreciation of \$3.6 million in the market value of the investments held by the plan during 2005. The plan net assets available of benefits increased to \$202 million.

### **2004**

The major highlight in the Board's pension trust fund was the continued improved financial performance in the public securities market and the resulting appreciation of \$14.1 million in the market value of the investments held by the plan during 2004. The plan net assets available of benefits increased to \$198 million.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This financial report consists of five parts: management's discussion and analysis (this section), the financial statements, the notes to the financial statements, required supplementary information, and other supplementary information.

### **Government-wide Financial Statements – Enterprise Fund**

The Board's principal activities of providing water, sewerage, and drainages services are accounted for in a single proprietary fund – the enterprise fund. Enterprise funds are used to report business activities. Since the enterprise fund is the Board's single activity, its financial statements are presented as the Board's government-wide financial statements.

The financial statements provide both long-term and short-term information about the Board's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a sections of required supplementary information and other supplementary information that further explain and support the information in the financial statements.

The Board's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Authority are included in the Statements of Net Assets.

The Statement of Net Assets reports the Board's net assets. Net assets-the difference between the Board's assets and liabilities-are one way to measure the Board's financial health or position.

### **Fund Financial Statements – Pension Trust Fund**

The Board's fund financial statements consist of its pension trust fund. As a fiduciary fund, the pension trust fund is held for the benefit of employees and retirees of the Board. The pension trust fund is not reflected in the government wide financials because the resources are not available to the Board for its activities. The accounting for the pension trust fund is much like that used by the enterprise fund.

## FINANCIAL ANALYSIS OF THE BOARD'S

### ENTERPRISE FUND

#### 2005 Net Assets

The Board's total assets at December 31, 2005 reached approximately \$1.7 billion, a 1.1% increase over December 31, 2004 (see Table A-1).

	2005	2004	Increase (Decrease)	Increase (Decrease)
Current assets	\$ 73,067,066	\$ 33,106,264	\$ 39,960,802	120.7%
Restricted assets	298,455,080	357,112,767	(58,657,687)	-16.4%
Property, plant and equipment - net	1,317,298,829	1,279,442,913	37,855,916	3.0%
Other assets	5,625,101	6,944,092	(1,318,991)	-19.0%
<b>Total assets</b>	<b>\$ 1,694,446,076</b>	<b>\$ 1,676,606,036</b>	<b>\$ 17,840,040</b>	<b>1.1%</b>
Current liabilities	\$ 273,184,938	\$ 216,972,936	\$ 56,212,002	25.9%
Long-term liabilities	265,600,587	279,560,334	(13,959,747)	-5.0%
<b>Total liabilities</b>	<b>538,785,525</b>	<b>496,533,270</b>	<b>42,252,255</b>	<b>8.5%</b>
Net assets:				
Invested in capital assets, net of related debt	1,092,139,700	1,085,354,440	6,785,260	0.6%
Restricted	63,520,851	94,718,326	(31,197,475)	-32.9%
<b>Total net assets</b>	<b>1,155,660,551</b>	<b>1,180,072,766</b>	<b>(24,412,215)</b>	<b>-2.1%</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,694,446,076</b>	<b>\$ 1,676,606,036</b>	<b>\$ 17,840,040</b>	<b>1.1%</b>

The increase in total assets of \$17.8 million resulted primarily from an increase in property, plant and equipment of \$37.9 million in 2005 due to \$42.9 million in construction funds expended and \$35.4 million of capital contributions less property losses resulting from Hurricane Katrina of \$49.2 million and the annual provision for depreciation of \$39.2 million. Current liabilities increased by \$56.2 million and long-term liabilities decreased by \$14.0 million in 2005 as compared to 2004 due primarily to increases in accounts payable for FEMA grant-related expenditures and normal payments of bonds payable existing at the beginning of the year.

## 2004 Net Assets

The Board's total assets at December 31, 2004 reached approximately \$1.7 billion, a 6.0% increase over December 31, 2003 (see Table A-2).

	2004	2003	Increase (Decrease)	Increase (Decrease)
Current assets	\$ 33,106,264	\$ 30,779,898	\$ 2,326,366	7.6%
Restricted assets	357,112,767	350,711,343	6,401,424	1.8%
Property, plant and equipment - net	1,279,442,913	1,192,582,354	86,860,559	7.3%
Other assets	6,944,092	8,517,724	(1,573,632)	-18.5%
<b>Total assets</b>	<b>\$ 1,676,606,036</b>	<b>\$ 1,582,591,319</b>	<b>\$ 94,014,717</b>	<b>5.9%</b>
Current liabilities	\$ 216,972,936	\$ 184,377,170	\$ 32,595,766	17.7%
Long-term liabilities	279,560,334	260,657,353	18,902,981	7.3%
<b>Total liabilities</b>	<b>496,533,270</b>	<b>445,034,523</b>	<b>51,498,747</b>	<b>11.6%</b>
Net assets:				
Invested in capital assets, net of related debt	1,085,354,440	1,041,213,409	44,141,031	4.2%
Restricted	94,718,326	96,343,387	(1,625,061)	-1.7%
<b>Total net assets</b>	<b>1,180,072,766</b>	<b>1,137,556,796</b>	<b>42,515,970</b>	<b>3.7%</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,676,606,036</b>	<b>\$ 1,582,591,319</b>	<b>\$ 94,014,717</b>	<b>5.9%</b>

The increase in total assets of \$95.5 million resulted primarily from an increase in property, plant and equipment of \$86.9 million in 2004 due to \$107.6 million in construction funds expended less the annual provision for depreciation of \$38.6 million. Current liabilities increased by \$32.6 million and long-term liabilities increased by \$18.9 million in 2004 as compared to 2003 due primarily to the issuance of \$170 million in new bonds payable including \$111,800,000 of refunding bond anticipation notes less normal payments of bonds payable existing at the beginning of the year.

## 2005 Changes in Net Assets

The change in net assets for the year ended December 31, 2005 was approximately \$24.4 million or 42.6% less than the change in net assets for the year ended December 31, 2004. The Board's total operating revenues decreased by 23.6% to approximately \$99.4 million, and total operating expenses increased 4.9% to approximately \$162.4 million. The changes in net assets are detailed in Table A-3; operating expenses are detailed in Table A-4.



	2005	2004	Increase (Decrease)	Increase (Decrease)
Operating revenues:				
Charges for services	\$ 96,232,489	\$ 126,719,406	\$ (30,486,917)	-24.1%
Other	3,171,703	3,343,867	(172,164)	-5.1%
<b>Total operating revenues</b>	<b>99,404,192</b>	<b>130,063,273</b>	<b>(30,659,081)</b>	<b>-23.6%</b>
Operating expenses (Table A-3)	162,369,426	154,833,957	7,535,469	4.9%
Operating loss	(62,965,234)	(24,770,684)	(38,194,550)	154.2%
Non-operating revenues:				
Property taxes	45,851,877	43,064,947	2,786,930	6.5%
Other taxes	631,818	744,322	(112,504)	-15.1%
Operating and maintenance grants	9,338,528	-	9,338,528	100.0%
Hurricane loss	(55,909,262)	-	(55,909,262)	-100.0%
Investment income (expense)	3,288,497	1,352,425	1,936,072	143.2%
<b>Total non-operating revenues</b>	<b>3,201,458</b>	<b>45,161,694</b>	<b>(41,960,236)</b>	<b>-92.9%</b>
Income before capital contributions	(59,763,776)	20,391,010	(80,154,786)	-393.1%
Capital contributions	35,351,561	22,124,960	13,226,601	59.8%
<b>Change in net assets</b>	<b>(24,412,215)</b>	<b>42,515,970</b>	<b>(66,928,185)</b>	<b>-157.4%</b>
Net assets, beginning of year	1,180,072,766	1,137,556,796	42,515,970	3.7%
Net assets, end of year	\$ 1,155,660,551	\$ 1,180,072,766	\$ (24,412,215)	-2.1%

Operating revenues decreased primarily as a result of a decline in volume due to decreases in the customer base following Hurricane Katrina. Property taxes increased by \$2.8 million in 2005 due to an increase in assessed value.

Capital revenue from federal grants and construction of Board property by other agencies increased by 59.8% to \$35.4 million. Principal capital contributions related to FEMA Disaster Public Assistance grants and the U.S. Corps of Engineers' construction of major drainage system improvements.

	2005	2004	Increase (Decrease)	Increase (Decrease)
Power and pumping	\$ 11,818,104	\$ 22,334,434	\$ (10,516,330)	-47.1%
Treatment	13,736,515	17,131,922	(3,395,407)	-19.8%
Transmission and distribution	18,432,531	20,846,681	(2,414,150)	-11.6%
Customer accounts	2,413,631	2,625,751	(212,120)	-8.1%
Customer service	2,645,604	2,855,631	(210,027)	-7.4%
Administration and general	12,130,773	14,978,964	(2,848,191)	-19.0%
Payroll related	19,780,248	18,794,864	985,384	5.2%
Maintenance of general plant	27,991,450	10,764,556	17,226,894	160.0%
Depreciation	39,187,670	38,600,928	586,742	1.5%
Amortization	360,445	295,156	65,289	22.1%
Provision for doubtful accounts	6,582,465	2,718,176	3,864,289	142.2%
Provision for claims	7,289,990	2,886,894	4,403,096	152.5%
<b>Total operating expenses</b>	<b>\$ 162,369,426</b>	<b>\$ 154,833,957</b>	<b>\$ 7,535,469</b>	<b>4.9%</b>

The decrease of \$10.5 million or 47.1% in 2005 in power and pumping is primarily due to a decrease in operations as a result of Hurricane Katrina including a decrease in boiler operations for high pressure gas and one sewerage pumping station being down as compared to 2004. The decrease in treatment expenses in 2005 of \$3.4 million or 19.8% primarily due to the east bank wastewater treatment plant being damaged and inoperable due to Hurricane Katrina. The decrease in transmission and distribution expenses in 2005 of \$2.4 million or 11.6% is primarily due to a disruption of water service at varying levels on the east bank of New Orleans for varying periods of time and a decrease in salaries and payroll related services due to a reduction in staff, all caused by Hurricane Katrina. The decrease in administration and general expenses in 2005 of \$2.8 million or 19.0% resulted primarily from decreases in salaries and payroll related services due to a reduction in staff caused by Hurricane Katrina. The increase in maintenance of general plant in 2005 of \$17.2 million or 160% resulted primarily from increases in salaries and payroll related expenses, professional services, consulting, and equipment repairs to restore systems following Hurricane Katrina. Provisions for doubtful accounts increased by \$3.9 million or 142.2% in 2005 as compared to 2004 as a result of an increase in closed accounts which are fully reserved and additional reserves for amounts not expected to be collected following Hurricane Katrina. Provisions for claims increased by \$4.4 million or 152.5% in 2005 as compared to 2004. Claims expense varies due to the number and severity of the claims during any period. The increase is due primarily to several large judgments rendered.

#### 2004 Changes in Net Assets

The change in net assets for the year ended December 31, 2004 was approximately \$43.0 million or 39.6% less than the change in net assets for the year ended December 31, 2003. The Board's total operating revenues increased by 8.7% to approximately \$130.1 million, and total operating expenses increased 8.2% to approximately \$154.8 million. The changes in net assets are detailed in Table A-5; operating expenses are detailed in Table A-6.

	2004	2003	Increase (Decrease)	Increase (Decrease)
Operating revenues:				
Charges for services	\$ 126,719,406	\$ 117,542,168	\$ 9,177,238	7.8%
Other	3,343,867	2,095,805	1,248,062	59.6%
<b>Total operating revenues</b>	130,063,273	119,637,973	10,425,300	8.7%
Operating expenses (Table A-3)	154,833,957	143,095,962	11,737,995	8.2%
Operating loss	(24,770,684)	(23,457,989)	(1,312,695)	5.6%
Non-operating revenues:				
Property taxes	43,064,947	38,943,504	4,121,443	10.6%
Other taxes	744,322	770,663	(26,341)	-3.4%
Investment income	1,352,425	1,031,593	320,832	31.1%
<b>Total non-operating revenues</b>	45,161,694	40,745,760	4,415,934	10.8%
Income before capital contributions	20,391,010	17,287,771	3,103,239	18.0%
Capital contributions	22,124,960	53,054,656	(30,929,696)	-58.3%
<b>Change in net assets</b>	42,515,970	70,342,427	(27,826,457)	-39.6%
Net assets, beginning of year	1,137,556,796	1,067,214,369	70,342,427	6.6%
Net assets, end of year	\$ 1,180,072,766	\$ 1,137,556,796	\$ 42,515,970	3.7%

Operating revenues increased primarily as a result of an increase in charges for services due to sewerage rate increases effective July, 2004 and August, 2003. The increases in revenue due to rates in sewerage and water revenues were partially offset by a decline in volume. Property taxes increased by \$4.1 million in 2004 due to an increase in assessed value.

Capital revenue from federal grants and construction of Board property by other agencies decreased by 58.3% to \$22.1 million. Principal capital contributions relate to the U.S. Corps of Engineers' construction of major drainage system improvements.

	2004	2003	Increase (Decrease)	Increase (Decrease)
Power and pumping	\$ 22,334,434	\$ 19,339,095	\$ 2,995,339	15.5%
Treatment	17,131,922	17,075,547	56,375	0.3%
Transmission and distribution	20,846,681	20,324,308	522,373	2.6%
Customer accounts	2,625,751	2,513,486	112,265	4.5%
Customer service	2,855,631	2,821,025	34,606	1.2%
Administration and general	14,978,964	12,534,252	2,444,712	19.5%
Payroll related	18,794,864	16,697,287	2,097,577	12.6%
Maintenance of general plant	10,764,556	10,563,936	200,620	1.9%
Depreciation	38,600,928	35,480,955	3,119,973	8.8%
Amortization	295,156	188,128	107,028	56.9%
Provision for doubtful accounts	2,718,176	1,884,751	833,425	44.2%
Provision for claims	2,886,894	3,673,192	(786,298)	-21.4%
<b>Total operating expenses</b>	<b>\$ 154,833,957</b>	<b>\$ 143,095,962</b>	<b>\$ 11,737,995</b>	<b>8.2%</b>

The increase of \$3.0 million or 15.5% in 2004 in power and pumping is primarily due to an increase in the price of natural gas purchased by the Board and in the price per kilowatt hour of purchased electricity as compared to 2003. The increase in administration and general expenses in 2004 of \$2.4 million or 19.5% resulted primarily from increases in non-operating, computer center, fleet and general insurance, and general superintendent expenses. Provisions for doubtful accounts increased by \$0.8 million or 44.2% in 2004 as compared to 2003 as a result of an increase in closed accounts which are fully reserved. Provisions for claims decreased by \$0.8 million or 21.4% in 2004 as compared to 2003. Claims expense varies due to the number and severity of the claims during any period. The decrease is due primarily to a several large structured settlement payments made during 2004 as compared to 2003.

## **PENSION TRUST FUND**

### **2005 Plan Net Assets**

The Board's total plan net assets of its pension trust fund at December 31, 2005 was approximately \$202 million, a 2.1% increase over December 31, 2004 (see table A-7). Total assets increased 1.7% to \$206.2 million.

	2005	2004	Increase (Decrease)	Increase (Decrease)
Cash	\$ 207,806	\$ 242,764	\$ (34,958)	-14.4%
Investments	205,248,652	201,549,735	3,698,917	1.8%
Other assets	773,796	1,062,674	(288,878)	-27.2%
<b>Total assets</b>	<b>206,230,254</b>	<b>202,855,173</b>	<b>3,375,081</b>	<b>1.7%</b>
DROP participant payable	\$ 3,593,654	\$ 4,571,050	\$ (977,396)	-21.4%
Due to other fund	231,509	-	231,509	100.0%
<b>Total liabilities</b>	<b>3,825,163</b>	<b>4,571,050</b>	<b>(745,887)</b>	<b>-16.3%</b>
<b>Plan net assets</b>	<b>\$ 202,405,091</b>	<b>\$ 198,284,123</b>	<b>\$ 4,120,968</b>	<b>2.1%</b>

Plan net assets increased by \$4.1 million in 2005 primarily due to realized and unrealized gains on investments recognized in 2005.

### 2004 Plan Net Assets

The Board's total plan net assets of its pension trust fund at December 31, 2004 was approximately \$198 million, a 7.7% increase over December 31, 2003 (see table A-8). Total assets increased 8.2% to \$202.9 million.

	2004	2003	Increase (Decrease)	Increase (Decrease)
Cash	\$ 242,764	\$ 237,431	\$ 5,333	2.2%
Investments	201,549,735	186,283,692	15,266,043	8.2%
Other assets	1,062,674	874,735	187,939	21.5%
<b>Total assets</b>	<b>202,855,173</b>	<b>187,395,858</b>	<b>15,459,315</b>	<b>8.2%</b>
DROP participant payable	4,571,050	3,279,115	1,291,935	39.4%
<b>Total liabilities</b>	<b>4,571,050</b>	<b>3,279,115</b>	<b>1,291,935</b>	<b>39.4%</b>
<b>Plan net assets</b>	<b>\$ 198,284,123</b>	<b>\$ 184,116,743</b>	<b>\$ 14,167,380</b>	<b>7.7%</b>

Plan net assets increased by \$14.2 million in 2004 primarily due to realized and unrealized gains on investments recognized in 2004.

### 2005 Changes in Plan Net Assets

	2005	2004	Increase (Decrease)	Increase (Decrease)
<b>Additions:</b>				
Contributions	\$ 5,607,361	\$ 4,841,810	\$ 765,551	15.8%
Net income on investments	8,890,315	19,415,652	(10,525,337)	-54.2%
<b>Total additions</b>	<b>14,497,676</b>	<b>24,257,462</b>	<b>(9,759,786)</b>	<b>-40.2%</b>
<b>Deductions:</b>				
Benefits	(8,494,829)	(7,946,658)	(548,171)	6.9%
Employee refunds	(149,147)	(116,254)	(32,893)	28.3%
Employee DROP contributions	(1,732,732)	(2,027,170)	294,438	-14.5%
<b>Total deductions</b>	<b>(10,376,708)</b>	<b>(10,090,082)</b>	<b>(286,626)</b>	<b>2.8%</b>
<b>Change in net assets</b>	<b>4,120,968</b>	<b>14,167,380</b>	<b>(10,046,412)</b>	<b>-70.9%</b>
Plan net assets, beginning of year	198,284,123	184,116,743	14,167,380	7.7%
Plan net assets, end of year	<b>\$ 202,405,091</b>	<b>\$ 198,284,123</b>	<b>\$ 4,120,968</b>	<b>2.1%</b>

Contributions to the pension plan increased in 2005 as compared to 2004 primarily due to increased employer contributions.

The decrease in the change in plan net assets of \$10.0 million resulted primarily from a decrease in unrealized gains on investments in 2005.

### 2004 Changes in Plan Net Assets

	2004	2003	Increase (Decrease)	Increase (Decrease)
<b>Additions:</b>				
Contributions	\$ 4,841,810	\$ 4,488,720	\$ 353,090	7.9%
Net income (loss) on investments	19,415,652	36,078,814	(16,663,162)	-46.2%
<b>Total additions</b>	<b>24,257,462</b>	<b>40,567,534</b>	<b>(16,310,072)</b>	<b>-40.2%</b>
<b>Deductions:</b>				
Benefits	(7,946,658)	(8,590,242)	643,584	-7.5%
Employee refunds	(116,254)	(202,565)	86,311	-42.6%
Employee DROP contributions	(2,027,170)	(1,475,460)	(551,710)	37.4%
<b>Total deductions</b>	<b>(10,090,082)</b>	<b>(10,268,267)</b>	<b>178,185</b>	<b>-1.7%</b>
<b>Change in net assets</b>	<b>14,167,380</b>	<b>30,299,267</b>	<b>(16,131,887)</b>	<b>-53.2%</b>
Plan net assets, beginning of year	184,116,743	153,817,476	30,299,267	19.7%
Plan net assets, end of year	<b>\$ 198,284,123</b>	<b>\$ 184,116,743</b>	<b>\$ 14,167,380</b>	<b>7.7%</b>

Contributions to the pension plan increased in 2004 as compared to 2003 primarily due to increased employer contributions.

The decrease in the change in plan net assets of \$16.1 million resulted primarily from a decrease in unrealized gains on investments in 2004.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### 2005 Capital Assets

As of December 31, 2005, the Board had invested approximately \$1.9 billion in capital assets. Net of accumulated depreciation, the Board's net capital assets at December 31, 2005 totaled approximately \$1.3 billion. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$37.9 million or 3.0% over December 31, 2004. The net book value of property damages to power and pumping stations, treatment plants, distribution systems, sewerage collection systems, other buildings and equipment, and vehicles due to the flooding caused by Hurricane Katrina was \$49.2 million.

At December 31, 2005, the Board's budget for its five year capital improvements program totaled \$1.9 billion including \$426.0 million for water, \$738.1 million for sewerage and \$736.7 million for drainage. Due to certain regulatory and legislative changes, additional capital improvements will probably be required. Future capital improvement program expenditures may require the issuance of additional debt depending on the amount and timing of expenditures. As of December 31, 2005, the Board has committed or appropriated \$81.6 million in investments for use in future capital projects and has \$182.6 million of bond proceeds remaining for construction. The capital project investments are included in restricted assets.

The capital improvements budget for 2006 is \$658.6 million, including \$81.2 million for projects, which are expected to be funded by federal grants and programs. Significant projects included in property, plant and equipment in progress as of December 31, 2005 include the following:

Restoration of Systems Damaged as a result of Hurricane Katrina  
Southeast Louisiana Flood Control Program  
Sewer System Sanitation Evaluation and Rehabilitation Program  
Drainage Pumping Station #1  
Eastbank Sewer Treatment Plant  
Westbank Sewer Treatment Plant

## **2004 Capital Assets**

As of December 31, 2004, the Board had invested approximately \$1.8 billion in capital assets. Net of accumulated depreciation, the Board's net capital assets at December 31, 2004 totaled approximately \$1.3 billion. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$86.9 million or 7.3% over December 31, 2003.

At December 31, 2004, the Board's budget for its five year capital improvements program totaled \$1.9 billion including \$510.6 million for water, \$851.1 million for sewerage and \$614.9 million for drainage. Due to certain regulatory and legislative changes, additional capital improvements will probably be required. Future capital improvement program expenditures may require the issuance of additional debt depending on the amount and timing of expenditures. As of December 31, 2004, the Board has committed or appropriated \$85.8 million in investments for use in future capital projects and has \$225.5 million of bond proceeds remaining for construction. The capital project investments are included in restricted assets.

The capital improvements budget for 2005 is \$297.8 million, including \$42.3 million for projects, which are expected to be funded by federal grants and programs. Significant projects included in property, plant and equipment in progress as of December 31, 2004 include the following:

Southeast Louisiana Flood Control Program  
Sewer System Sanitation Evaluation and Rehabilitation Program  
Drainage Pumping Station #1  
Eastbank Sewer Treatment Plant  
Westbank Sewer Treatment Plant

## **2005 Debt Administration**

The Board continues to make its regularly scheduled payments on its bonds. During 2005, \$137.0 million in new bonds were issued by the Board. Net proceeds of the bond issues were used to refund \$137.0 million of bond anticipation notes from 2003. During 2005, \$147.9 million in principal payments were made.

All bond debt covenants have been met.

Additional detailed information relating to capital assets and debt is presented in the financial statements and related notes.

## **2004 Debt Administration**

The Board continues to make its regularly scheduled payments on its bonds. During 2004, \$170.0 million in new bonds were issued by the Board. Net proceeds of the bond issues are to be used for sewerage construction and to refund \$111.8 million of bond anticipation notes from 2003. During 2004, \$121.0 million in principal payments were made.

All bond debt covenants have been met.

Additional detailed information relating to capital assets and debt is presented in the financial statements and related notes.

## **ECONOMIC FACTORS AND RATES**

In post Katrina, there are significant other revenues and expenses, which impact the Board. State and federal grants related to the disaster will have a significant impact on 2006. Total FEMA debris removal, mitigation, and capital replacement grants are expected to exceed \$160.0 million. Of these approximately \$40.9 million has been recognized in 2005. FEMA revenues will be recognized as buildings, systems, and other reimbursable assets are repaired or replaced. In 2006, the Board will recognize a significant portion of these revenues but much of the construction and replacement will not have been completed and the revenues although measurable may not be available due to the slowness of actual receipts of FEMA funds.

In July 2006, the Board and the State of Louisiana (the State) entered into a Cooperative Endeavor Agreement (the Agreement) whereby the State agreed to lend up to \$77.5 million to the Board from State funds on deposit in the Debt Service Assistance Fund, authorized by the Gulf Opportunity Zone Act of 2005 and Act 41 of the First Extraordinary Session of the Louisiana Legislature of 2006. This loan is to assist in payment of debt service requirements for 2006 to 2008 due to disruption of tax bases and revenue streams caused by Hurricanes Katrina and Rita. No principal or interest is payable during the initial five year period of the loan. After the expiration of the initial five-year period, the loan bears interest at a fixed rate of 4.64%.

The Board's authority to implement multiple year annual rate increases of 14% for 2005 and 14% in 2006 continued. The number of open accounts has decreased from approximately 145,000 at the end of 2004 to approximately 121,000 currently, a decrease of 16.7%.

## **CONTACTING THE BOARD'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Sewerage & Water Board of New Orleans at (504) 585-2356.

## SEWERAGE AND WATER BOARD OF NEW ORLEANS

## STATEMENTS OF NET ASSETS

December 31, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
Property, plant and equipment	\$ 1,851,147,896	\$ 1,826,416,136
Less: accumulated depreciation	<u>533,849,067</u>	<u>546,973,223</u>
Property, plant and equipment, net	<u>1,317,298,829</u>	<u>1,279,442,913</u>
Restricted assets:		
Capital projects	81,600,704	85,776,891
Construction funds	182,614,944	225,529,144
Debt service reserve	22,254,068	22,254,068
Customer deposits	5,417,248	5,336,338
Health insurance reserve	4,473,900	9,000,000
Debt service	1,882,216	9,004,326
Other	<u>212,000</u>	<u>212,000</u>
Total restricted assets	<u>298,455,080</u>	<u>357,112,767</u>
Current assets:		
Cash	4,495,796	3,043,854
Accounts receivable:		
Customers (net of allowance for doubtful accounts)	12,345,146	13,188,408
Taxes	7,409,194	4,737,807
Interest	894,335	418,576
Grants	38,596,551	235,091
Miscellaneous	3,313,386	1,542,155
Due from City of New Orleans, current	200,000	200,000
Due from other fund	290,778	-
Inventory of supplies	4,883,630	9,109,830
Prepaid expenses	<u>638,250</u>	<u>630,543</u>
Total current assets	<u>73,067,066</u>	<u>33,106,264</u>
Due from City of New Orleans, less current portion	<u>408,614</u>	<u>546,229</u>
Other assets:		
Bond issue costs	1,446,463	1,666,907
Deposits	51,315	51,315
Net pension asset	<u>3,718,709</u>	<u>4,679,641</u>
Total other assets	<u>5,216,487</u>	<u>6,397,863</u>
Total assets	<u>\$ 1,694,446,076</u>	<u>\$ 1,676,606,036</u>

(Continued)



**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**STATEMENTS OF NET ASSETS  
(Continued)**

	2005	2004
<b>NET ASSETS AND LIABILITIES</b>		
<b>Net Assets:</b>		
Invested in capital assets - net of related debt	\$ 1,092,139,700	\$ 1,085,354,440
<b>Restricted For:</b>		
Debt service	21,453,647	28,817,876
Capital projects	42,067,204	65,900,450
Total restricted for net assets	63,520,851	94,718,326
Total net assets	1,155,660,551	1,180,072,766
<b>Liabilities:</b>		
<b>Long-term liabilities:</b>		
Claims payable	6,371,799	8,660,268
Bonds payable (net of current maturities)	259,228,788	270,900,066
	265,600,587	279,560,334
<b>Current liabilities (payable from current assets):</b>		
Accounts payable	72,061,335	20,760,229
Due to City of New Orleans	748,746	259,462
Retainers and estimates payable	2,539,742	1,474,713
Due to pension trust fund	59,269	60,994
Accrued salaries	537,376	674,661
Accrued vacation and sick pay	9,874,395	9,869,659
Claims payable	27,170,348	22,940,327
Capital lease payable	806,172	-
Other liabilities	1,734	13,158
	113,799,117	56,053,203
<b>Current liabilities (payable from restricted assets):</b>		
Accrued interest	2,682,637	2,440,517
Bonds payable	148,545,285	148,717,551
Retainers and estimates payable	2,740,651	4,425,327
Customer deposits	5,417,248	5,336,338
	159,385,821	160,919,733
Total current liabilities	273,184,938	216,972,936
Total liabilities	538,785,525	496,533,270
Total net assets and liabilities	\$ 1,694,446,076	\$ 1,676,606,036

See accompanying notes to financial statements.

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**For the years ended December 31, 2005 and 2004**

	2005	2004
Operating revenues:		
Sales of water and delinquent fees	\$ 38,727,266	\$ 54,234,144
Sewerage service charges	57,329,963	72,252,114
Plumbing inspection and license fees	175,260	233,147
Other revenue	3,171,703	3,343,868
Total operating revenues	99,404,192	130,063,273
Operating Expenses:		
Power and pumping	11,818,104	22,334,434
Treatment	13,736,515	17,131,922
Transmission and distribution	18,432,531	20,846,681
Customer accounts	2,413,631	2,625,751
Customer service	2,645,604	2,855,631
Administration and general	12,130,773	14,978,964
Payroll related	19,780,248	18,794,864
Maintenance of general plant	27,991,450	10,764,556
Depreciation	39,187,670	38,600,928
Amortization	360,445	295,156
Provision for doubtful accounts	6,582,465	2,718,176
Provision for claims	7,289,990	2,886,894
Total operating expenses	162,369,426	154,833,957
Operating loss	(62,965,234)	(24,770,684)
Non-operating revenues (expenses):		
Two-mill tax	1,407	5,192
Three-mill tax	12,990,040	12,199,559
Six-mill tax	13,152,643	12,352,092
Nine-mill tax	19,707,787	18,508,104
Other taxes	631,818	744,322
Operating and maintenance grants	9,338,528	-
Investment income	3,291,489	1,352,425
Hurricane loss	(55,909,262)	-
Investment expense	(2,992)	-
Total non-operating revenues (expenses)	3,201,458	45,161,694
Income (loss) before capital contributions	(59,763,776)	20,391,010
Capital contributions	35,351,561	22,124,960
Change in net assets	(24,412,215)	42,515,970
Net assets:		
Beginning of year	1,180,072,766	1,137,556,796
End of year	\$ 1,155,660,551	\$ 1,180,072,766

See accompanying notes to financial statements.

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**STATEMENTS OF CASH FLOWS**

**ENTERPRISE FUND**

**For the years ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Cash received from customers	\$ 90,807,310	\$ 122,918,850
Cash payments to suppliers for goods and services	(54,394,902)	(57,763,832)
Cash payments to employees for services	(57,786,804)	(55,562,758)
Other revenue	1,575,732	4,378,538
Net cash provided by (used in) operating activities	<u>(19,798,664)</u>	<u>13,970,798</u>
Cash flows from noncapital financing activities - proceeds from property taxes	<u>43,812,308</u>	<u>43,902,698</u>
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(69,087,981)	(112,845,073)
Proceeds of bond issue	137,189,060	171,402,786
Bond issuance costs	(140,001)	(299,600)
Principal payments on bonds payable	(147,885,000)	(121,015,000)
Interest paid on bonds payable	(17,193,506)	(14,491,864)
Principal payments on capital lease	(137,201)	-
Interest paid on capital lease	(2,992)	-
Capital contributed by developers and federal grants	6,328,629	22,895,714
Net cash used in capital and related financing activities	<u>(90,928,992)</u>	<u>(54,353,037)</u>
Cash flows from investing activities		
Payments for purchase of investments	(501,020,477)	(1,714,722,567)
Proceeds from maturities of investments	527,128,807	1,712,625,222
Investment income	9,628,693	4,369,955
Net cash provided by investing activities	<u>35,737,023</u>	<u>2,272,610</u>
Net increase (decrease) in cash	(31,178,325)	5,793,069
Cash at the beginning of the year	<u>119,063,845</u>	<u>113,270,776</u>
Cash at the end of the year	<u>\$ 87,885,520</u>	<u>\$ 119,063,845</u>
Reconciliation of cash and restricted cash (note 2)		
Current assets - cash	\$ 4,495,796	\$ 3,043,854
Restricted assets -cash	83,389,724	116,019,991
Total cash	<u>\$ 87,885,520</u>	<u>\$ 119,063,845</u>

(Continued)

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**STATEMENTS OF CASH FLOWS**

(Continued)

**ENTERPRISE FUND**

**For the years ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities is as follows:		
Operating loss	\$ (62,965,234)	\$ (24,770,684)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:		
Depreciation	39,187,670	38,600,928
Provision for claims	7,289,990	2,886,894
Provision for doubtful accounts	6,582,465	2,718,176
Amortization	360,445	295,156
Change in operating assets and liabilities:		
Increase in customer and other receivable	(5,739,203)	(3,620,942)
(Increase) decrease in inventory	(2,444,535)	(1,208,424)
Increase (decrease) in prepaid expenses and other receivables	(1,932,101)	911,501
Decrease in net pension asset	960,932	1,451,077
Increase in accounts payable	3,905,759	2,437,344
Increase (decrease) in accrued salaries, due to pension and accrued vacation and sick pay	(134,274)	362,522
Decrease in other liabilities	<u>(4,870,578)</u>	<u>(6,092,750)</u>
Net cash provided by (used in) operating activities	<u>\$ (19,798,664)</u>	<u>\$ 13,970,798</u>

Noncash investing, capital and financing activities:

The acquisition and construction of capital assets and capital contributed by developers and federal grants do not include non-cash amounts resulting from the construction by the U.S. Corps of Engineers of \$1,943,806 and \$17,872,855 in drainage projects during the years ended December 31, 2005 and 2004, respectively.

See accompanying notes to financial statements.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

STATEMENTS OF PLAN NET ASSETS

PENSION TRUST FUND

December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets:		
Cash	\$ 207,806	\$ 242,764
Receivables:		
Investment income	756,987	979,923
Employee contributions receivable	16,809	21,757
Due from other fund	-	60,994
Investments	<u>205,248,652</u>	<u>201,549,735</u>
Total assets	<u>206,230,254</u>	<u>202,855,173</u>
Liabilities:		
DROP participants payable	3,593,654	4,571,050
Due to other fund	<u>231,509</u>	<u>-</u>
Total liabilities	<u>3,825,163</u>	<u>4,571,050</u>
Plan net assets available for pension benefits	<u>\$ 202,405,091</u>	<u>\$ 198,284,123</u>

See accompanying notes to financial statements.

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**STATEMENTS OF CHANGES IN PLAN NET ASSETS**

**PENSION TRUST FUND**

**For the years ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Additions:		
Contributions:		
Employee contributions	\$ 1,176,637	\$ 1,120,776
Employer contributions	3,716,381	3,103,146
City annuity and other transfers in	714,343	617,888
Total contributions	<u>5,607,361</u>	<u>4,841,810</u>
Investment income:		
Interest income	3,214,087	3,461,162
Dividend income	2,118,541	1,886,416
Net appreciation	3,642,420	14,133,537
	<u>8,975,048</u>	<u>19,481,115</u>
Less investment expense	<u>(84,733)</u>	<u>(65,463)</u>
Net investment income	<u>8,890,315</u>	<u>19,415,652</u>
Total additions	<u>14,497,676</u>	<u>24,257,462</u>
Deductions:		
Benefits	(8,494,829)	(7,946,658)
Employee refunds	(149,147)	(116,254)
Employee contributions to DROP	<u>(1,732,732)</u>	<u>(2,027,170)</u>
Total deductions	<u>(10,376,708)</u>	<u>(10,090,082)</u>
Change in plan net assets	4,120,968	14,167,380
Plan net assets at beginning of year	<u>198,284,123</u>	<u>184,116,743</u>
Plan net assets at end of year	<u>\$ 202,405,091</u>	<u>\$ 198,284,123</u>

See accompanying notes to financial statements.

# SEWERAGE AND WATER BOARD OF NEW ORLEANS

## NOTES TO FINANCIAL STATEMENTS

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### (1) Summary of Significant Accounting Policies

#### History and Organization

The major operation of the Sewerage and Water Board of New Orleans (the Board) is providing water, sewerage and drainage services for the City of New Orleans (City). The Sewerage and Water Board of New Orleans was created by Act 6 of the Louisiana Legislature of 1899 as a special board independent of the City's government to construct, maintain and operate a water treatment and distribution system and a public sanitary sewerage system for the City. In 1903, the Legislature gave the Board control of and responsibility for the City's major drainage system and relieved the City of the duty of providing in its annual operating budget or otherwise for the maintenance and operations of the water, sewerage and drainage systems.

In accordance with the Louisiana Revised Statutes (LRS) 33:4096 and 4121, the Board has the authority to establish the water and sewerage rates to charge to its customers. The rates are based on the actual water consumed and on the costs of maintenance and operation of the water and sewerage systems, including the costs of improvements and replacements. The collections of water and sewerage revenues are to be used by the Board for the maintenance and operation of the systems, the cost of improvements, betterments, and replacements, and to provide for the payments of interest and principal on the bonds payable. The Board has also been given the authority to levy and collect various tax millages which are used for the operation and maintenance of the drainage operations. All excess revenues collected are made available for capital development of the system. The proceeds of the rate collections and tax millages are invested in such investments as authorized by the LRS. These investments are reflected in the combined statement of net assets, as "restricted assets," as they are restricted to the purposes as described above.

The Board is composed of thirteen members, including the Mayor of the City, the two Councilmembers-at-Large, and one District Councilmember selected by the City Council, two members of the Board of Liquidation and seven citizens appointed by the Mayor. The appointed members of the Board serve staggered nine year terms.

The Board's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to utilities and to governmental units. The following is a summary of the more significant policies.

#### (A) Reporting Entity

In conformity with the Governmental Accounting Standards Board's definition of a reporting entity, the Board includes an enterprise fund and a pension trust fund for financial reporting purposes. The Board is considered a reporting entity based on the following criteria:

- (a) Responsibility for surpluses/deficits. The Board is solely responsible for its surpluses/deficits. In accordance with Louisiana Revised Statutes, no other governmental unit is responsible for the Board's deficits or has a claim to its surpluses. The Board's operations are self-sustaining; revenues are generated through charges to customers and dedicated property taxes. Other than grants, no funding is received from the State of Louisiana or the City of New Orleans.

# SEWERAGE AND WATER BOARD OF NEW ORLEANS

## NOTES TO FINANCIAL STATEMENTS

(Continued)

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(1) Summary of Significant Accounting Policies (continued)

- (b) Budget Approval. The Board is solely responsible for reviewing, approving and revising its budget.
- (c) Responsibility for Debt. The Louisiana Revised Statutes authorize the Board to issue bonds; such bonds must bear on their face a statement that they do not constitute a debt of the City. The Board is solely responsible for payments to the bondholders. No other governmental unit is required by statute to make any payments to bondholders nor have any payments to bondholders ever been made by any governmental unit, except the Board.
- (d) Designation of Management. The Board controls the hiring of management and employees.
- (e) Special Financial Relationship. The Board has no special financial relationships with any other governmental unit.
- (f) Statutory Authority. The Board's statutory authority was created by the State of Louisiana as an independent governmental unit. Only an amendment to state statutes can change or abolish the Board's authority.

The Board is a stand-alone entity as defined by Governmental Accounting Standards Board Statement 14, *The Financial Reporting Entity*. The Board is a legally-separate governmental organization that does not have a separately elected governing body and does not meet the definition of a component unit. As a result of a Louisiana Supreme Court decision on March 21, 1994, the Board was declared to be an autonomous or self-governing legal entity, legally independent of the city, state and other governments, created and organized pursuant to Louisiana Revised Statutes 33:4071 as a board, separate and independent of the governing authorities of the City and vested with autonomous or self governing authority. No other government can mandate actions of the Board nor impose specific financial burdens. The Board is fiscally independent to operate under its bond covenant and the provisions of Louisiana Revised Statute provisions.

The City of New Orleans includes the Board as a component unit in the City's financial statements.

(B) Basis of Financial Statement Presentation

The Board's basic financial statements consist of the government-wide statements which include the proprietary fund (the enterprise fund) and the fund financial statements which includes the fiduciary fund (the pension trust fund). The operations of the Board are accounted for in the following fund types:



# SEWERAGE AND WATER BOARD OF NEW ORLEANS

## NOTES TO FINANCIAL STATEMENTS

(Continued)

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(1) Summary of Significant Accounting Policies (continued)

Proprietary Fund Type

The proprietary fund is used to account for the Board's ongoing operations and activities which are similar to those often found in the private sector. The proprietary fund is accounted for using 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 statement of net assets. Net assets are segregated into amounts invested in capital assets (net of related debt), restricted for debt service, restricted for capital projects and unrestricted. The Board's restricted assets are expandable for their purposes. The Board utilizes available restricted assets before utilizing unrestricted assets. The operating statements present increases (revenues) and decreases (expenses) in net assets. The Board maintains one proprietary fund type – the enterprise fund. The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance. The presentation of the financial statements of the enterprise fund follows the format recommended by the National Association of Regulatory Utility Commissioners (NARUC).

The statement of net assets arrangement for a utility reflects the relative importance of the various accounts. "Property, plant and equipment" is the first major category on the asset side, and long-term capitalization categories of net assets are listed first on the liability side. Current assets and current liabilities are assigned a relatively less important position in the center of the statement of net assets, rather than being placed first as in the statement of net assets of commercial and industrial enterprises.

Operating revenues include all charges for service; other revenues include reconnection fees and other miscellaneous charges. Operating expenses include the costs associated with providing water, sewerage and drainage services. Interest income, interest expense and tax revenues are presented non-operating items.

The enterprise fund is presented in the government-wide financial statements.

Fiduciary Fund Type

The fiduciary fund is used to account for assets held by the Board in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Board maintains one fiduciary fund type - the pension trust fund. The pension trust fund uses the flow of economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included in the statement of plan net assets. The pension trust fund is used to account for the activity of the Board's employee retirement plan.

The pension trust fund is presented in the fund financial statements.

# SEWERAGE AND WATER BOARD OF NEW ORLEANS

## NOTES TO FINANCIAL STATEMENTS

(Continued)

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(1) Summary of Significant Accounting Policies (continued)

The Board applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its enterprise fund and pension trust fund operations unless those pronouncements conflict with or contradict GASB pronouncements.

(C) Basis of Accounting

The enterprise fund and the pension trust fund prepare their financial statements on the accrual basis of accounting. Unbilled utility service charges are not recorded as management considers the effect of not recording such unbilled receivables as not material. Property taxes are recorded as revenue in the year for which they are levied. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the pension plan are recognized when due and the employer has made a commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

(D) Investments

Investments are reported at fair value, except for short-term investments (maturity of one year or less) which are reported at amortized cost, which approximates fair value. Securities traded in a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

(E) Inventory of Supplies

Inventory of supplies is stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

(F) Property, Plant and Equipment

Property, plant and equipment are carried at historical cost. The Board capitalizes moveable equipment with a value of \$10,000 or greater, stationary, network and other equipment with a value of \$5,000 or greater, and all real estate. The cost of additions includes contracted work, direct labor, materials and allocable cost. Donated fixed assets are recorded at their estimated fair value at the date of donation.

Interest is capitalized on property, plant, and equipment acquired and/or constructed with tax exempt debt. Depreciation is computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in revenue for the period. The cost of maintenance and repairs is charged to operations as incurred and significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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(1) Summary of Significant Accounting Policies (continued)

(G) Vacation and Sick Pay

Vacation (annual leave) and sick pay (sick leave) are accrued when earned. Annual leave is accrued at the rate of .6923 of a workday for each bi-weekly accrual period for all employees on the payroll as of December 31, 1978. Employees hired after that date earn leave at a rate of .5 of a workday per bi-weekly pay period.

All employees on the payroll as of December 31, 1978 receive three bonus days each year; all employees hired after that date receive three bonus days each year for five through nine calendar years of continuous service; six bonus days each year for ten through fourteen years; nine bonus days each year for fifteen through nineteen years; and, twelve days for twenty or more years of continuous service. Civil Service's policy permits employees a limited amount of earned but unused annual leave which will be paid to employees upon separation from the Board. The amount shall not exceed ninety days for employees hired before January 1, 1979, and forty-five days for employees hired after December 31, 1978.

Sick leave is accumulated on a bi-weekly basis by all employees hired prior to December 31, 1978 at an accrual rate of .923 of a workday. For employees hired subsequent to December 31, 1978, the accrual rate is .5 of a workday for each bi-weekly period, plus a two day bonus each year for employees with six through fifteen calendar years of continuous service, and seven bonus days each year for employees with sixteen or more calendar years of continuous service.

Upon separation from the Board, an employee can elect to convert unused sick leave for retirement credits or cash. The conversion to cash is determined by a rate ranging from one day of pay for five days of leave for the 1st through 100th leave day to one day of pay for one day of leave for all days in excess of the 400th leave day. The total liability for unconverted sick leave as December 31, 2005 and 2004 is approximately \$12,651,000 and \$12,739,000, respectively. The amount included in the statements of net assets as of December 31, 2005 and 2004 is \$9,874,395 and \$9,869,659, respectively, which represents the annual leave and the converted sick leave since virtually all employees convert their sick leave to cash. The amounts for compensated absences include the salary cost as well as certain salary related costs, such as the Board's share of social security expense.

(H) Pension

The Board funds the accrued pension cost for its contributory pension plan which covers substantially all employees. Annual costs are actuarially computed using the entry age normal cost method.

(I) Drainage System

In 1903, the Legislature gave the Board control of and responsibility for the City's drainage system. The Drainage System was established as a department of the enterprise fund to account for the revenues from three-mill, six-mill and nine-mill ad valorem taxes designated exclusively for drainage services. These revenues have been supplemented by inspection and license fees

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

(1) Summary of Significant Accounting Policies (continued)

collected by the Board. There exists a potential for additional financing by additional user service charges. Expenditures from the system are for the debt service of three-mill, six-mill and nine-mill tax bonds and drainage related operation, maintenance and construction.

(J) Self-Insurance/Risk Management

The Board is self-insured for general liability, worker's compensation, unemployment compensation and hospitalization benefits and claims. The accrued liability for the various types of claims represents an estimate by management of the eventual loss on the claims arising prior to year-end, including claims incurred and not yet reported including estimates of both future payments of losses and related claims adjustment and expense. Estimated expenses and recoveries are based on a case by case review.

(K) Capital Contributions

Contributions from developers and others, and receipts of Federal, State and City grants for acquisition of property, plant and equipment are recorded as a capital contributions in the statement of revenues, expenses and changes in net assets.

(L) Bond Issue Cost and Refinancing Gains (Losses)

Costs related to issuing bonds are capitalized and amortized based upon the methods used to approximate the interest method over the life of the bonds. Beginning with fiscal years in 1994 and thereafter, gains and losses associated with refundings and advance refundings are being deferred and amortized based upon the methods used to approximate the interest method over the life of the new bonds or the remaining term on any refunded bond, whichever is shorter. Premiums associated with bond issues are amortized over the interest yield method.

(M) Cash Flows

For purposes of the statement of cash flows, only cash on hand and on deposit at financial institutions are considered to be cash equivalents. Certificates of deposits, treasury bills and other securities are considered investments.

(2) Cash and Investments

The following are the components of the Board's cash and investments as of December 31:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>2005</u>			
Enterprise Fund:			
Cash and money market funds	\$ 4,495,796	\$ 83,389,725	\$ 87,885,521
Certificates of deposit	-	110,944,725	110,944,725
	<u>4,495,796</u>	<u>194,334,450</u>	<u>198,830,246</u>
Investments	-	104,120,630	104,120,630
	<u>\$ 4,495,796</u>	<u>\$ 298,455,080</u>	<u>\$ 302,950,876</u>

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

(2) Cash and Investments (continued)

2004

Enterprise Fund:

Cash and money market funds	\$	3,043,854	\$	116,019,991	\$	119,063,845
Certificates of deposit		-		143,135,306		143,135,306
		<u>3,043,854</u>		<u>259,155,295</u>		<u>262,199,151</u>
Investments		-		97,957,470		97,957,470
	\$	<u>3,043,854</u>	\$	<u>357,112,767</u>	\$	<u>360,156,621</u>

The composition and carrying value of investments is as follows:

	<u>2005</u>	<u>2004</u>	<u>Category</u>
Enterprise Fund:			
LAMP	\$ 8,250,000	\$ 8,250,000	-
U.S. Government Securities and Instrumentalities	<u>95,870,630</u>	<u>89,707,470</u>	2
	\$ <u>104,120,630</u>	\$ <u>97,957,470</u>	2
Pension Trust Fund:			
Money Market	\$ 4,653,357	\$ 3,885,962	-
Corporate Bonds	45,680,291	46,720,139	2
U.S. Government Securities and Instrumentalities	25,636,578	23,936,655	2
Foreign Obligations	826,759	2,095,104	2
Equities	<u>128,451,667</u>	<u>124,911,875</u>	2
	\$ <u>205,248,652</u>	\$ <u>201,549,735</u>	

Cash and Certificates of Deposit - At December 31, 2005, the bank balances of the Board's cash totaled \$7,199,051, money market funds held by an agent totaled \$84,057,931, and certificates of deposit totaled \$84,803,668. Statutes require that the Board's cash and certificates of deposit be covered by federal depository insurance or collateral. Of the cash bank balance at December 31, 2005, \$1,200,000 is covered by federal depository insurance. At December 31, 2004, the bank balances of the Board's cash totaled \$6,631,965, money market funds held by an agent totaled \$115,239,664, and certificates of deposit totaled \$91,720,000. Of the cash bank balance at December 31, 2004, \$1,142,230 is covered by federal depository insurance. The remaining amount of the Board's cash bank balances and all certificates of deposit for 2005 and 2004 were covered by collateral held by custodial agents of the financial institutions in the name of the Board, except for cash bank balances at one institution of \$185,348 as of December 31, 2005. Money market funds held by the Board's agent were covered by collateral held by custodial agents of the financial institution in the name of the Board's agent as of December 31, 2005 and 2004.

## SEWERAGE AND WATER BOARD OF NEW ORLEANS

### NOTES TO FINANCIAL STATEMENTS

(Continued)

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(2) Cash and Investments (continued)

Investments - Statutes authorize the Board to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poors Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances and repurchase agreements. In addition, the pension trust fund is authorized to invest in corporate bonds rated A or better by Standard & Poors Corporation or AAA or better by Moody's Investors Service, and equity securities.

The Board's investments at December 31, 2005 and 2004 are categorized above to give an indication of the level of risk assumed by the Board at year-end. Category 1 includes investments that are insured or registered or securities which are held by the Board or its agents in the Board's name. Category 2 includes uninsured and unregistered investments with the securities held by the counterparty's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments where the securities are held by the counterparty or by its trust department or agent but not in the Board's name.

LAMP represents those assets held in the Louisiana Asset Management Pool (LAMP), a local government investment pool which is not categorized under GASB Codification Section I50.164 because the investment is in a pooled fund and thereby not evidenced by securities that exist in physical or book entry form. LAMP, a local government investment pool, is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana, which was formed by an initiative of the State Treasurer in 1993. While LAMP is not required to be a registered investment company under the Investment Company Act of 1940, its investment policies are similar to those established by Rule 2-a7, which governs registered money market funds. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. Government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities. 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. The fair market value of investments is determined on a weekly basis to monitor any variances between amortized cost and market value. For purposes of determining participants' shares, investments are valued at amortized cost. LAMP is designed to be highly liquid to provide immediate access to participants.

Under the provisions of its benefit plan and state law, the Board's pension benefit trust engages in securities lending to broker dealers and other entities for cash collateral that will be returned for the same securities in the future. The cash collateral cannot be liquidated by the Board unless the borrower defaults. Cash collateral is initially pledged at 102% of the market value of securities lent and additional collateral is provided by the next business day if the value falls to less than 100% of the market value of the securities lent. No collateral exposure existed as of December 31, 2005 and 2004. The value of securities lent at December 31, 2005 and 2004 was \$57,510,837 and \$48,335,539. The market value of the cash collateral at December 31, 2005 and 2004 was \$59,706,496 and \$49,814,090. All securities lent were classified as Category 2 custodial risk.

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

(3) Defined Benefit Pension Plan

The Board has a single-employer contributory retirement plan covering all full-time employees, the Pension Trust Fund (PTF). The Board's payroll for current employees covered by PTF for the years ended December 31, 2005 and 2004 was \$30,050,827 and \$30,165,927, respectively; such amounts exclude overtime and standby payroll. Total payroll, including overtime and standby payroll, was \$43,430,938 and \$39,051,715 for the years ended December 31, 2005 and 2004, respectively. At December 31, the PTF membership consisted of:

	<b>2005</b>	<b>2004</b>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	672	671
Current employees:		
Vested	856	895
Nonvested	238	223
	1,094	1,118
Total	1,766	1,789

The benefit provisions were established by action of the Board in 1956 in accordance with Louisiana statutes. The Board retains exclusive control over the plan through the Pension Committee of the PTF. Effective January 1, 1996, the plan became qualified under Internal Revenue Code Section 401(a) and thus is tax exempt.

The plan provides for retirement benefits as well as death and disability benefits. All benefits vest after ten years of service. Employees who retire at or after age sixty-five with ten years of credited service are entitled to an annual retirement benefit, payable biweekly for life, in an amount equal to two percent of their average compensation for each year of credited service up to ten years, increasing by (1) one-half percent per year for service years over ten years, (2) an additional one-half percent per year for service years over twenty years and (3) an additional one percent per year for service years over thirty years, for a maximum of four percent for each year of credited service. Average compensation is the average annual earned compensation (prior to 2002, less \$1,200) for the period of thirty-six successive months of service during which the employee's compensation was the highest. Employees with thirty years or more of credited service may retire without a reduction in benefits. Employees may retire prior to age sixty-two without thirty years of service with a reduction in benefits of three percent for each year of age below the age of sixty-two. If an employee leaves covered employment or dies before three years of credited service, the accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary.

The retirement allowance for retirees over age sixty-two is subject to a cost of living adjustment each January 1, provided that the member retired on or after January 1, 1984. The adjustment is based on the increase in the Consumer Price Index for all urban wage earners published by the U.S. Department of Labor, but is limited to an annual maximum of two percent on the first \$10,000 of initial retirement benefits.

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

(3) Defined Benefit Pension Plan (continued)

Effective September 23, 1993, employers may transfer credit between the Board's plan and the City of New Orleans retirement system with full credit for vested service. The Board and its employees are obligated under plan provisions to make all required contributions to the plan. The required contributions are actuarially determined. Level percentage of payroll employer contribution rates is determined using the entry age normal actuarial funding method. Employees are required to contribute four percent of their regular salaries or wages.

The Board had attained full funding of the actuarially computed pension liability in 2000. Effective June 19, 2002, however, as a result of the adoption of several plan changes in accordance with the Board's reciprocity agreement with the City of New Orleans, the plan became unfunded. These changes impacted the plan's funding requirements by \$20,333,835, which is being amortized over a 10 year period. Key changes adopted included: (a) amendment to benefit formula; (b) adoption of a "Rule of 80" retirement; (c) change in the years of service required for a terminating employee to qualify for a later separation benefit from 10 years to 5 years; and (d) elimination of the exclusion of the first \$1,200 of earnings from benefits and contributions.

The annual required contribution for the current year was determined as part of the December 31, 2005 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 7.0% investment rate of return (net of administrative expenses) and (b) projected salary increase of 5.0% per year. Both (a) and (b) included an inflation component of 2.0%. The actuarial value of assets was determined using a seven-year weighted market average.

The Board's net pension asset for the years ended December 31 was as follows:

	<u>2005</u>	<u>2004</u>
Annual required contribution	\$ 4,702,354	\$ 4,271,797
Interest on net pension obligation	(327,575)	(429,150)
Adjustments to annual required contribution	<u>841,649</u>	<u>995,160</u>
Annual pension cost	5,216,428	4,837,807
Contributions made	<u>4,255,497</u>	<u>3,386,729</u>
Decrease in net pension asset	960,931	1,451,078
Change in estimate	-	-
Net pension asset, beginning of year	<u>4,679,641</u>	<u>6,130,718</u>
Net pension asset, end of year	<u>\$ 3,718,710</u>	<u>\$ 4,679,641</u>

The net pension asset is being amortized over 7 years as of December 31, 2005, using the level dollar closed method and using the same interest, salary increase and inflation factors as the plan.



**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

(3) Defined Benefit Pension Plan (continued)

Trend information for Board and employee contributions is as follows:

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
Fiscal year ending:			
December 31, 2005	\$ 5,216,428	85%	\$ 3,718,710
December 31, 2004	\$ 4,837,806	77%	\$ 4,679,641
December 31, 2003	\$ 3,721,963	91%	\$ 6,130,718
December 31, 2002	\$ 3,730,747	78%	\$ 6,331,555

The actuarially determined contribution requirement for the Board was 16.85 percent through 2001, 8 percent for 2002, 11.046 percent for 2003, 11.227 percent for 2004, and 14.161 percent for 2005; the requirement for employees is 4.0 percent. The actual Board's and employees' contributions (including contributions for transferred employees from other pension plans) for years ended December 31 were as follows:

	<u>2005</u>	<u>2004</u>
Employer and other transfers	\$ 4,430,724	\$ 3,721,034
Employee	1,176,637	1,120,776
Total Contributions	\$ <u>5,607,361</u>	\$ <u>4,841,810</u>

DROP

Beginning in 1996, the Board offered employees a "Deferred Retirement Option Plan" (DROP), an optional retirement program which allows an employee to elect to freeze his or her retirement benefits, but continue to work and draw a salary for a minimum period of one year to a maximum period of five years. While continuing employment, the retirement benefits are segregated from overall plan assets available to other participants. As of December 31, 2005 and 2004, 66 and 82 employees, respectively, participated in the plan. The amount of plan assets segregated for these individuals was \$3,593,654 and \$4,571,050 as of December 31, 2005 and 2004, respectively.

A separate report on the pension trust fund is not issued.

(4) Property, Plant and Equipment

The useful lives of property, plant and equipment consisted of the following:

Pumping station buildings	57 years
Pumping station machinery	40 years
Canals and subsurface drains	75 to 100 years
Power transmission	50 years
General plant items	12 years
General buildings	25 years

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**(4) Property, Plant and Equipment (continued)**

Property, plant and equipment consisted of the following as of December 31:

	2005			
	Beginning Balance	Additions	Deletions	Ending Balance
Real estate rights, non depreciable	\$ 8,631,997	\$ 5,626	\$ -	\$ 8,637,623
Power and pumping stations - buildings	252,782,300	20,222,455	(564,694)	272,440,061
Power and pumping stations - machinery	230,233,999	3,700,556	(11,625,198)	222,309,357
Distribution systems	118,769,391	2,572,995	(1,561,076)	119,781,310
Sewerage collection	191,983,305	38,755,793	(9,587,666)	221,151,432
Canals and subsurface drainage	277,039,373	3,294,394	-	280,333,767
Treatment plants	117,214,963	24,102,176	(32,232,933)	109,084,206
Connections and meters	41,974,467	226,904	(4,256,793)	37,944,578
Power transmission	25,838,333	-	(2,154,906)	23,683,427
General plant	207,154,248	6,528,721	(37,876,209)	175,806,760
General buildings	9,277,426	-	(1,690,879)	7,586,547
Total property, plant and equipment in service	1,480,899,802	99,409,620	(101,550,354)	1,478,759,068
Construction in progress	345,516,334	126,716,291	(99,843,797)	372,388,828
Total property, plant and Total	1,826,416,136	226,125,911	(201,394,151)	1,851,147,896
Accumulated depreciation	546,973,223	39,187,671	(52,311,827)	533,849,067
Net	\$ 1,279,442,913	\$ 186,938,240	\$ (149,082,324)	\$ 1,317,298,829

  

	2004			
	Beginning Balance	Additions	Deletions	Ending Balance
Real estate rights, non depreciable	\$ 8,572,900	\$ 59,097	\$ -	\$ 8,631,997
Power and pumping stations - buildings	249,698,773	3,083,527	-	252,782,300
Power and pumping stations - machinery	228,930,292	1,303,707	-	230,233,999
Distribution systems	118,796,243	184,988	(211,840)	118,769,391
Sewerage collection	162,526,854	32,522,918	(3,066,467)	191,983,305
Canals and subsurface drainage	211,459,311	65,580,062	-	277,039,373
Treatment plants	112,975,457	4,239,506	-	117,214,963
Connections and meters	41,468,442	863,881	(357,856)	41,974,467
Power transmission	25,584,083	254,250	-	25,838,333
General plant	189,570,680	17,735,741	(152,173)	207,154,248
General buildings	9,277,426	-	-	9,277,426
Total property, plant and equipment in service	1,358,860,461	125,827,677	(3,788,336)	1,480,899,802
Construction in progress	345,950,813	125,393,198	(125,827,677)	345,516,334
Total property, plant and Total	1,704,811,274	251,220,875	(129,616,013)	1,826,416,136
Accumulated depreciation	512,228,920	38,532,651	(3,788,348)	546,973,223
Net	\$ 1,192,582,354	\$ 212,688,224	\$ (125,827,665)	\$ 1,279,442,913

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

(4) Property, Plant and Equipment (continued)

Interest capitalized was as follows for the years ended December 31:

		<b>2005</b>		<b>2004</b>
Interest income	\$	6,812,963	\$	3,242,691
Interest expense		<u>(16,288,022)</u>		<u>(14,310,409)</u>
Net interest capitalized	\$	<u>(9,475,059)</u>	\$	<u>(11,067,718)</u>

(5) Customer Receivables

Customer receivables as of December 31 consist of the following:

		<b>Customer</b>	<b>Allowance</b>		<b>Net</b>
		<b>Accounts</b>	<b>for Doubtful</b>		
		<b>Accounts</b>	<b>Accounts</b>		<b>Net</b>
2005	Water	\$ 10,959,488	\$ 5,515,790	\$	5,443,698
	Sewer	<u>12,941,475</u>	<u>6,040,026</u>		<u>6,901,449</u>
		\$ <u>23,900,963</u>	\$ <u>11,555,816</u>	\$	<u>12,345,147</u>
2004	Water	\$ 9,678,325	\$ 3,358,148	\$	6,320,177
	Sewer	<u>9,789,797</u>	<u>2,921,566</u>		<u>6,868,231</u>
		\$ <u>19,468,122</u>	\$ <u>6,279,714</u>	\$	<u>13,188,408</u>

(6) Due from the City of New Orleans

In accordance with the terms of an agreement with the City of New Orleans, the Board and the City agreed to offset \$2,098,687 (net of unearned discount \$285,696) owed by the City to the Board at the rate of \$200,000 annually in lieu of civil service charges through 2009. As of December 31, 2005 and 2004, \$608,614 and \$746,229, respectively, was due from the City of New Orleans.

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

(7) Changes in Long-term Obligations

a. Bonds Payable

Bonds payable consisted of the following as of December 31:

	<b>Principal Balances</b>	
	<b>2005</b>	<b>2004</b>
5.00% to 6.25% sewerage revenue bonds, series 1997 (initial average interest cost 5.36%), due in annual principal installments ranging from \$1,100,000 to \$2,425,000; final payment due June 1, 2017	\$ 21,920,000	\$ 23,165,000
4.125% to 6.125% water revenue bonds, series 1998 (initial average interest cost 4.82%), due in annual principal final payment due final payment due \$625,000 to \$1,220,000; final payment due December 1, 2018	12,185,000	12,845,000
4.125% to 6.000% sewer revenue bonds, series 1998 (initial average interest cost 4.82%), due in annual principal installments ranging from \$950,000 to \$1,910,000; final payment due June 1, 2018	19,035,000	20,065,000
4.10% to 6.10% drainage system bonds, series 1998 (initial average interest cost 4.84%), due in annual principal installments ranging from \$370,000 to \$760,000; final payment due December 1, 2018	7,525,000	7,930,000
5.25% to 6.50% sewer revenue bonds, series 2000 (initial average interest cost 5.48%), due in annual principal installments ranging from \$820,000 to \$2,205,000; final payment due June 1, 2020	22,690,000	23,610,000
5.00% to 7.00% sewer revenue bonds, series 2000B (initial average interest cost 5.43%), due in annual principal installments ranging from \$640,000 to \$1,660,000; final payment due June 1, 2020	17,315,000	18,030,000
4.40% to 6.70% sewer revenue bonds, series 2001 (initial average interest cost 5.02%), due in annual principal installments ranging from \$1,100,000 to \$2,455,000; final payment due December 1, 2021	28,350,000	29,545,000
3.00% to 5.00% sewerage service revenue bonds, series 2002 (initial average interest cost 4.36%; due in annual principal installments ranging from \$1,635,000 to \$4,520,000; final payment due June 1, 2022.	\$ 51,820,000	\$ 53,640,000

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

(7) Changes in Long-term Obligations

a. Bonds Payable (continued)

	<b>Principal Balances</b>	
	<b>2005</b>	<b>2004</b>
3.00% to 5.00% water revenue bonds, series 2002 (initial average interest cost 4.57%, due in annual principal installments ranging from \$945,000 to \$3,658,000; final payment due December 1, 2022.	\$ 32,060,000	\$ 33,055,000
3.45% to 6.00% drainage system bonds, series 2002 (initial average interest cost 4.46%), due in annual principal installments ranging from \$510,000 to \$2,155,000; final payment due December 1, 2022.	18,395,000	18,955,000
2.20% to 5.00% sewerage service revenue bonds, series 2003 (initial average interest cost 4.45%); due in annual principal installments ranging from \$140,000 to \$395,000; final payment due June 1, 2023.	5,150,000	5,360,000
3.25% to 6.00% sewerage service revenue bonds, series 2004 (initial average interest cost 4.62%); due in annual principal installments ranging from \$945,000 to \$3,685,000; final payment due June 1, 2024.	31,870,000	33,000,000
2.50% sewerage service bond anticipation notes, series 2004 (initial average interest cost 2.02%); due in one principal installment of \$25,200,000 due July 29, 2005.	-	25,200,000
2.75% sewerage service refunding bond anticipation notes, series 2004 (initial average interest cost 1.50%); due in one principal installment of \$111,800,000 due July 29, 2005.	-	111,800,000
2.68% sewerage service refunding bond anticipation notes, series 2005 (initial average interest cost 3.00%); due in one principal installment of \$137,000,000 due July 26, 2006.	137,000,000	-
	405,315,000	416,200,000
Plus bond premiums	2,459,073	3,417,617
Total	407,774,073	419,617,617
Less current maturities	148,545,285	148,717,551
Bond payable, long-term	<u>\$ 259,228,788</u>	<u>\$ 270,900,066</u>

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

(7) Changes in Long-term Obligations

a. Bonds Payable (continued)

The changes in long-term debt were as follows:

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 416,200,000	\$ 367,215,000
Issuances	137,000,000	170,000,000
Payments	<u>(147,885,000)</u>	<u>(121,015,000)</u>
Balance, end of year	<u>\$ 405,315,000</u>	<u>\$ 416,200,000</u>

The annual requirements to amortize all bonds payable as of December 31, 2005, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 148,435,000	\$ 14,073,826	\$ 162,508,826
2007	12,020,000	12,247,452	24,267,452
2008	12,635,000	11,656,764	24,291,764
2009	13,270,000	11,056,512	24,326,512
2010	13,925,000	10,449,008	24,374,008
2011-2015	80,800,000	41,520,729	122,320,729
2016-2020	91,365,000	19,316,560	110,681,560
2021-2024	<u>32,865,000</u>	<u>2,259,460</u>	<u>35,124,460</u>
Total	<u>\$ 405,315,000</u>	<u>\$ 122,580,311</u>	<u>\$ 527,895,311</u>

The amount of revenue bonds and tax bonds payable as of December 31, 2005, are as follows:

<u>Year</u>	<u>Revenue Bonds</u>	<u>Tax Bonds</u>	<u>Total</u>
2006	\$ 147,420,000	\$ 1,015,000	\$ 148,435,000
2007	10,950,000	1,070,000	12,020,000
2008	11,510,000	1,125,000	12,635,000
2009	12,085,000	1,185,000	13,270,000
2010	12,690,000	1,235,000	13,925,000
2011-2015	73,670,000	7,130,000	80,800,000
2016-2020	82,415,000	8,950,000	91,365,000
2021-2024	<u>28,655,000</u>	<u>4,210,000</u>	<u>32,865,000</u>
Total	<u>\$ 379,395,000</u>	<u>\$ 25,920,000</u>	<u>\$ 405,315,000</u>

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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(7) Changes in Long-term Obligations

a. Bonds Payable (continued)

The indentures under which these bonds were issued provide for the establishment of restricted funds for debt service as follows:

1. Debt service funds are required for the payment of interest and principal on the revenue and tax bonds. Monthly deposits on revenue bonds, excluding bond anticipation notes, are required to be made into this fund from operations in an amount equal to 1/6 of the interest falling due on the next interest payment date, and an amount equal to 1/12 of the principal falling due on the next principal payment date. All debt service funds are administered by the Board of Liquidation. The required amount to be accumulated in this fund was \$5,277,555 and \$5,958,884 at December 31, 2005 and 2004, respectively; the accumulated balance at December 31, 2005 and 2004 was \$1,882,216 and \$9,004,326, respectively. Monthly deposits to the debt service funds are temporarily suspended due to debt service payments being paid directly by the State of Louisiana through a Cooperative Endeavor Agreement. See note 15 for additional information.
2. A debt service reserve is required for an amount equal to but not less than fifty percent of the amount required to be credited in said month to the debt service fund until there shall be accumulated in the debt service reserve account the largest amount required in any future calendar year to pay the principal and interest on outstanding bonds, except for the water and sewer bonds. The water and sewer bonds require an amount equal to the largest amount required in any future calendar year to pay the principal of and interest on outstanding bonds. There is no debt service reserve required for the 1998 and 2002 drainage 9 mill tax bonds. The required amount to be accumulated in this fund was \$22,289,918 and \$22,289,918 at December 31, 2005 and 2004, respectively; the accumulated balance at December 31, 2005 and 2004 was \$22,254,068 and \$22,254,068, respectively.

The net operating revenues of the Water Department and the Sewerage Department of the Board for the year ended December 31, 2005 were adequate to meet the bond indenture required debt service coverage of 130 percent. The Board is in compliance with the requirements of its long-term debt agreements at December 31, 2005.

In 2003, the statutes were revised and there is no longer a statutory limit on tax bonds.

b. Capital Lease

During October 2005, the Board entered into a capital lease for the replacement of vehicles damaged during Hurricane Katrina totaling \$943,373 with payments under separate payment schedules based on the date of delivery beginning in October 2005 and ending November 2006. Lease terms include monthly payments of principal and interest at an interest rate of 2.68%. This capital lease is secured by a security interest in the vehicles. As of December 31, 2005, future minimum lease payments for the capital lease of \$806,172 are scheduled to be paid during 2006. Additional vehicles totaling \$8,762,253 were purchased during 2006 under the same terms.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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b. Capital Lease (continued)

The vehicles subject to the capital lease are included in property plant and equipment - general plant with a net book value of \$866,178.

(8) Due to City of New Orleans

The Board bills and collects sanitation charges on behalf of the City of New Orleans (City). The Board is not liable for any uncollected sanitation charges. The amount due the City for sanitation fees collected was \$778,597 and \$342,172 at December 31, 2005 and 2004, respectively.

(9) Property Taxes

Property taxes are levied by the City of New Orleans. Taxes on real and personal property attach as an enforceable lien on the property as of January 1. Taxes are levied on January 1, are payable on January 1, and are delinquent on February 1.

The assessed value of the property is determined by an elected Board of Assessors. The assessed value for 2005 was \$2,113,547,294. The combined tax rate dedicated for the Board for the years ended December 31, 2005 and 2004 was \$22.59 per \$1,000 of assessed valuation. These dedicated funds are available for operations, maintenance, construction and extension of the drainage system (except for subsurface systems).

(10) Commitments

a. Capital Improvements

At December 31, 2005, the Board's budget for its five year capital improvements program totaled \$1,900,785,000 including \$426,004,000 for water, \$738,071,000 for sewerage and \$736,710,000 for drainage. Due to certain regulatory and legislative changes, additional capital improvements will probably be required. Future capital improvement program expenditures may require the issuance of additional debt depending on the amount and timing of expenditures. As of December 31, 2005, the Board has committed or appropriated \$81,600,704 in investments for use in future capital projects and has \$182,614,944 of bond proceeds remaining for construction. The capital project investments are included in restricted assets.

The capital improvements budget for 2006 is \$658,644,000, including \$81,163,000 for projects, which are expected to be funded by federal grants and programs. Significant projects included in property, plant and equipment in progress as of December 31, 2005 include the following:

Restoration of Systems Damaged as a result of Hurricane Katrina  
Southeast Louisiana Flood Control Program  
Sewer System Sanitation Evaluation and Rehabilitation Program  
Drainage Pumping Station #1  
Eastbank Sewer Treatment Plant  
Westbank Sewer Treatment Plant



**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

b. Self-insurance

The Board is self-insured for general liability, worker's compensation, and hospitalization benefits and claims. Settled claims have not exceeded excess coverage in any of the past three fiscal years. Hospitalization benefits are charged to payroll related expense.

General liability claims are segregated internally by "claims" and "suits" depending on the scope and type of claim, and are handled by the Office of the Special Counsel and Administrative Services. Individual general liability losses have ranged from \$100 to \$7,500,000, illustrating the volatility of this exposure. The provision for claims expense for 2005 and 2004 amounted to \$5,156,246 and \$733,436, respectively.

Worker's compensation expense provision for 2005 and 2004 amounted to \$1,456,323 and \$2,153,461, respectively.

The hospitalization self-insurance benefits are administered by Blue Cross of Louisiana. The Board's expense provision in excess of employee contributions for 2005 and 2004 was approximately \$10,500,000 and \$10,200,000, respectively, and is included in payroll related expenses.

Changes in the claims payable amount are as follows (health payments are reflected net):

<u>Fiscal Year</u>	<u>Beginning of Year</u>	<u>Current Year Claims and Estimate Change</u>	<u>Claim Payments</u>	<u>End of Year</u>
2005	\$ 31,600,595	17,121,153	15,179,601	33,542,147
2004	\$ 34,851,573	13,096,753	16,357,731	31,600,595

The composition of claims payable is as follows:

	<u>2005</u>	<u>2004</u>
Short-term:		
Workers' Compensation	\$ 915,187	\$ 1,120,393
Health Insurance	2,420,289	2,137,838
General Liability	23,834,872	19,682,096
Total short-term	<u>27,170,348</u>	<u>22,940,327</u>
Long-term:		
Workers' Compensation	5,771,799	6,260,268
General Liability	600,000	2,400,000
Total long-term	<u>6,371,799</u>	<u>8,660,268</u>
Total	<u>\$ 33,542,147</u>	<u>\$ 31,600,595</u>

# SEWERAGE AND WATER BOARD OF NEW ORLEANS

## NOTES TO FINANCIAL STATEMENTS

(Continued)

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(10) Commitments (continued)

c. Regulatory Matters

The Board, as well as other utilities, is subject to environmental standards imposed by federal, state and local environmental laws and regulations. The Board has entered into a consent decree with the United States which allows the Board to go forward with its major program to repair and rehabilitate the sewerage system while drawing on a \$100 million commitment from the United States Environmental Protection Agency. The Board expended \$39,347,784 and \$39,238,385 of the commitment at December 31, 2005 and 2004, respectively. The overall costs of the program are estimated at \$604.8 million over a period ending in 2010. The Board is in compliance with the decree.

The Board is also participating in Federal financial award programs which are subject to financial and compliance audits by various agencies. No disallowed costs have been identified. As part of Federal and other governmental agency funding, the Board is required to match a portion of funding received. The Board believes it has sufficient funds to meet its matching requirements.

d. Postemployment Healthcare Benefits

In addition to providing pension benefits, the Board provides certain health care benefits for retired employees in accordance with its pension plan provisions. All of the Board's employees may become eligible for those benefits if they reach normal retirement age while working for the Board. The cost of retiree health care is recognized when incurred including an estimate for the amount incurred but not yet reported. For 2005 and 2004, the costs incurred by the Board for those benefits were approximately \$3,507,992 and \$3,959,071, respectively, net of retiree contributions of \$231,283 and \$226,641, respectively. The number of participants eligible to receive health care benefits was 706 and 744 as of December 31, 2005 and 2004, respectively.

(11) Deferred Compensation Plan

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property, and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the employees, therefore the assets of the plan are not included in these financial statements.

(12) Budgets

Operating and capital expenditure budgets are adopted by the Board on a basis consistent with accounting principles generally accepted in the United States. 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.

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**(13) Segment Information**

The Board issued revenue bonds to finance its water and sewerage departments which operate the Board's water and sewerage treatment plants and distribution and collection systems. These bonds are accounted for in a single fund; however, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

Summary financial information for these departments as of and for the year ended December 31 is as follows:

	<u>Condensed Statements of Net Assets</u>			
	<u>Water</u>		<u>Sewer</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(amounts in thousands)			
<b>Assets:</b>				
Property, plant and equipment	\$ 241,727	\$ 240,020	\$ 508,633	\$ 477,253
Restricted assets	27,733	39,939	182,042	232,567
Current	10,631	13,052	36,566	13,799
Other assets	2,268	2,821	2,382	2,910
Total assets	<u>\$ 282,359</u>	<u>\$ 295,832</u>	<u>\$ 729,623</u>	<u>\$ 726,529</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	\$ 205,121	\$ 203,857	\$ 327,013	\$ 323,756
Restricted	<u>(13,005)</u>	<u>17,246</u>	<u>20,460</u>	<u>28,697</u>
Total net assets	<u>192,116</u>	<u>221,103</u>	<u>347,473</u>	<u>352,453</u>
<b>Liabilities:</b>				
Current	37,159	19,334	38,298	19,709
Current liabilities payable from restricted assets	7,595	7,663	150,569	152,045
Noncurrent liabilities	<u>45,489</u>	<u>47,732</u>	<u>193,283</u>	<u>202,322</u>
Total liabilities	<u>90,243</u>	<u>74,729</u>	<u>382,150</u>	<u>374,076</u>
Total liabilities and net assets	<u>\$ 282,359</u>	<u>\$ 295,832</u>	<u>\$ 729,623</u>	<u>\$ 726,529</u>

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

(13) Segment Information (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Water		Sewer	
	2005	2004	2005	2004
	(amounts in thousands)			
Service charges, pledged against bonds	\$ 40,717	\$ 56,438	\$ 57,674	\$ 72,654
Depreciation expense	(13,574)	(13,762)	(12,443)	(11,870)
Other operating expenses	(56,237)	(53,299)	(37,217)	(40,910)
Operating income	(29,094)	(10,623)	8,014	19,874
Nonoperating revenues (expenses):				
Investment earnings	-	-	821	47
Other	(9,209)	331	(23,391)	413
Capital contributions	9,317	1,256	9,577	2,853
Change in net assets	(28,986)	(9,036)	(4,979)	23,187
Beginning net assets	221,103	230,139	352,453	329,266
Ending net assets	\$ 192,117	\$ 221,103	\$ 347,474	\$ 352,453

Condensed Statements of Cash Flows

	Water		Sewer	
	2005	2004	2005	2004
	(amounts in thousands)			
Net cash provided by (used in):				
Operating activities	\$ (1,327)	\$ 2,022	\$ 12,324	\$ 30,464
Noncapital financing activities	281	331	351	376
Capital and related financing activities	(12,599)	(16,628)	(67,092)	(17,726)
Investing activities	12,528	13,329	24,855	(7,281)
Net increase (decrease)	(1,117)	(946)	(29,562)	5,833
Cash and cash equivalents:				
Beginning of year	(151)	795	118,518	112,685
End of year	\$ (1,268)	\$ (151)	\$ 88,956	\$ 118,518

## SEWERAGE AND WATER BOARD OF NEW ORLEANS

### NOTES TO FINANCIAL STATEMENTS

(Continued)

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(14) Natural Disaster

On August 29, 2005, the New Orleans region suffered significant damage to property and lives when Hurricane Katrina struck the Gulf Coast area. The Board sustained significant damage to Board-owned facilities, service vehicles, and inventory, which were flooded and/or wind damaged.

For the year ended December 31, 2005, losses totaling \$55,909,262 were provided as follows. The net book value of damaged property was \$49,238,527 and lost inventory amounted to \$6,670,735. No insurance proceeds are expected to be recovered.

As of December 31, 2005, the Board has received \$2,320,833 cash reimbursements from the Federal Emergency Management Agency (FEMA). Included in accounts receivable is \$38,334,167 of reimbursements due from FEMA. Additional FEMA grants totaling in excess of \$119 million are in various stages of the approval process and include amounts for building repairs, vehicle and equipment repairs and replacements, temporary power, supplies and other costs.

(15) Subsequent Events

During January 2006, the Board entered into a long-term agreement with the Federal Emergency Management Agency under the Community Disaster Loan Act of 2005 as a result of the major disaster declaration of August 29, 2005 for Hurricane Katrina. Subsequent to December 31, 2005, the Board has drawn down \$61,956,747 of the \$63,710,539 total funds available. The loan is for a term of five years, which may be extended, at an interest rate of 2.69%. Simple interest accrues from the date of each disbursement. Payments of principal and interest are deferred until the end of the five year period.

In July 2006, the Board and the State of Louisiana (the State) entered into a Cooperative Endeavor Agreement whereby the State agreed to lend up to \$77,465,247 from State funds on deposit in the Debt Service Assistance Fund, authorized by the Gulf Opportunity Zone Act of 2005 and Act 41 of the First Extraordinary Session of the Louisiana Legislature of 2006, to assist in payment of debt service requirements from 2006 through 2008 due to disruption of tax bases and revenue streams caused by Hurricanes Katrina and Rita. Draw downs on the loan will be made as debt service payments become due. No principal or interest shall be payable during the initial five year period of the loan. After the expiration of the initial five year period, the loan shall bear interest at a fixed rate of 4.64 percent. Principal payments on the bonds begin in July 2012 and the loan will mature in July 2026. Interest is payable semi-annually on January 15 and July 15 beginning January 2012. The loan may be prepaid without penalty or premium. The Board has the right to request one extension of its obligation to begin payments under the loan not to exceed five years. Draw downs through May 2007 totaled \$40,494,073.

**SEWERAGE AND WATER BOARD OF NEW ORLEANS**

**Required Supplementary Information Under GASB Statement No. 25**

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date <u>December 31</u>	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Overfunded) Unfunded AAL	Funded Ratio	Covered Payroll (millions)	Unfunded AAL as a Percentage of payroll
2005	\$ 209,829,340	\$ 225,544,886	\$ 15,715,546	93.03%	\$ 30	52.30%
2004	204,706,452	218,155,395	13,448,943	93.84%	30	44.58%
2003	196,697,432	205,362,089	8,664,657	95.78%	28	30.46%
2002	187,892,716	197,323,094	9,430,378	95.22%	29	32.65%
2001	180,737,126	167,062,451	(13,674,675)	108.19%	29	(47.39%)
2000	164,845,672	160,568,317	(4,277,355)	102.66%	30	(14.15%)

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contribution
2005	\$ 4,702,354	\$ 3,716,381	79.03%
2004	4,271,797	3,721,034	87.11%
2003	3,193,339	3,391,537	106.21%
2002	3,190,707	2,931,065	91.86%
2001	-	5,417,852	-
2000	891,032	5,444,048	610.98%

See accompanying notes to financial statements.

## SEWERAGE AND WATER BOARD OF NEW ORLEANS

## SCHEDULE OF NET ASSETS BY DEPARTMENT

## ENTERPRISE FUND

As of December 31, 2005 and 2004

	Water System		Sewerage System		Drainage System		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>ASSETS</b>								
Property, plant and equipment	\$ 454,456,196	\$ 455,222,488	\$ 654,877,929	\$ 638,280,095	\$ 741,813,771	\$ 732,913,553	\$ 1,851,147,896	\$ 1,826,416,136
Less accumulated depreciation	212,729,242	215,202,924	146,244,772	161,027,243	174,875,053	170,743,056	533,849,067	546,973,223
	241,726,954	240,019,564	508,633,157	477,252,852	566,938,718	562,170,497	1,317,298,829	1,279,442,913
Restricted assets:								
Capital projects	8,707,752	16,713,662	4,729,768	9,950,000	68,163,184	59,113,229	81,600,704	85,776,891
Construction funds	8,094,018	10,237,870	155,534,509	192,835,944	18,986,417	22,455,330	182,614,944	223,529,144
Debt service reserve	3,928,380	3,928,380	18,325,688	18,325,688			22,254,068	22,254,068
Customer deposits	5,417,248	5,336,338					5,417,248	5,336,338
Health insurance reserve	1,491,300	3,000,000	1,491,300	3,000,000	1,491,300	3,000,000	4,473,900	9,000,000
Debt service	743	628,276	1,881,473	8,376,050			1,882,216	9,004,326
Other	94,000	94,000	79,000	79,000	39,000	39,000	212,000	212,000
	27,733,441	39,938,526	182,041,738	232,566,682	88,679,901	84,607,559	298,455,080	357,112,767
Current assets:								
Cash	(1,105,510)	(349,164)	5,270,114	2,723,613	331,192	669,405	4,495,796	3,043,854
Accounts receivable:								
Customers, net of allowance	5,443,697	6,320,177	6,901,449	6,868,231	7,409,194	4,737,807	12,345,146	13,188,408
Taxes					770,180	345,479	894,335	418,576
Interest	84,524	24,731	39,631	48,366	13,895,741	-	38,596,551	235,091
Grants	9,807,541	-	14,893,269	235,091	838,621	542,466	3,313,386	1,542,155
Miscellaneous	2,045,156	574,406	429,609	425,283	34,000	34,000	200,000	200,000
Due from City of New Orleans, current	96,000	96,000	70,000	70,000				
Due from (to) other internal departments/other fund	(9,087,695)	(1,106,190)	7,284,098	1,480,342	2,094,375	(374,152)	290,778	-
Inventory of supplies	3,060,529	7,208,649	1,454,684	1,728,069	368,417	173,112	4,883,630	9,109,830
Prepaid expenses	287,213	283,744	223,387	220,690	127,650	126,109	638,250	630,543
Total current assets	10,631,455	13,052,353	36,566,241	13,799,685	25,869,370	6,254,226	73,067,066	33,106,264
Due from City of New Orleans, less current portion	196,135	262,190	143,015	191,180	69,464	92,859	408,614	546,229
Other assets:								
Bond issue costs	226,260	243,297	1,105,167	1,296,956	115,036	126,654	1,446,463	1,666,907
Deposits	22,950	22,950	17,965	17,965	10,400	10,400	51,315	51,315
Pension Asset	1,822,167	2,293,024	1,115,613	1,403,892	780,929	982,725	3,718,709	4,679,641
	2,071,377	2,559,271	2,238,745	2,718,813	906,365	1,119,779	5,216,487	6,397,863
	\$ 282,359,362	\$ 295,831,904	\$ 729,622,896	\$ 726,529,212	\$ 682,463,818	\$ 654,244,920	\$ 1,694,446,076	\$ 1,676,606,036

(Continued)

SEWERAGE AND WATER BOARD OF NEW ORLEANS  
SCHEDULE OF NET ASSETS BY DEPARTMENT, CONTINUED

ENTERPRISE FUND

As of December 31, 2005 and 2004

	Water System		Sewerage System		Drainage System		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>NET ASSETS AND LIABILITIES</b>								
Net assets:								
Invested in capital assets - net of related debt	\$ 205,121,312	\$ 203,857,459	\$ 327,013,253	\$ 323,756,154	\$ 560,005,135	\$ 557,740,827	\$ 1,092,139,700	\$ 1,085,354,440
Restricted for:								
Debt service	3,712,248	4,380,810	17,839,624	24,539,821	(98,225)	(102,755)	21,453,647	28,817,876
Capital Projects	(16,717,127)	12,864,599	2,620,319	4,156,733	56,164,012	48,879,118	42,067,204	65,900,450
Total net assets	192,116,433	221,102,868	347,473,196	352,452,708	616,070,922	606,517,190	1,155,660,551	1,180,072,766
Long-term liabilities:								
Claims payable	2,523,933	2,986,756	1,923,933	2,086,756	1,923,933	3,586,756	6,371,799	8,660,268
Bonds payable (net of current maturities)	42,964,660	44,744,975	191,359,128	200,235,091	24,905,000	25,920,000	259,228,788	270,900,066
	45,488,593	47,731,731	193,283,061	202,321,847	26,828,933	29,506,756	265,600,587	279,560,334
Current liabilities (payable from current assets):								
Accounts payable	748,746	7,657,103	29,679,228	8,753,656	17,019,756	4,349,470	72,061,335	20,760,229
Due to City of New Orleans	47,928	211,260	4,467	183,391	-	-	748,746	259,462
Retainers and estimates payable	29,042	29,887	13,632	14,029	2,487,347	1,080,062	2,539,742	1,474,713
Due to other fund	276,901	320,144	149,304	226,141	111,171	17,078	59,269	60,994
Accrued salaries	4,918,347	4,876,265	2,987,797	2,962,058	1,968,251	128,376	537,376	674,661
Accrued vacation and sick pay	5,451,361	5,966,398	5,141,375	7,570,177	16,577,612	2,031,336	9,874,395	9,869,659
Claims payable	322,469	-	322,469	-	161,234	9,403,752	27,170,348	22,940,327
Capital lease payable	1,734	13,158	-	-	-	-	806,172	-
Other liabilities	37,158,879	19,333,677	38,298,272	19,709,452	38,341,966	17,010,074	113,799,117	56,053,203
Current liabilities (payable from restricted assets):								
Accrued interest	216,875	175,845	2,367,537	2,161,917	98,225	102,755	2,682,637	2,440,517
Bonds payable	1,735,000	1,655,000	145,795,285	146,097,551	1,015,000	965,000	148,545,285	148,717,551
Retainers and estimates payable	226,334	496,445	2,405,545	3,785,737	108,772	143,145	2,740,651	4,425,327
Customer deposits	5,417,248	5,336,338	-	-	-	-	5,417,248	5,336,338
	7,595,457	7,663,628	150,568,367	152,045,205	1,221,997	1,210,900	159,385,821	160,919,733
Total current liabilities	44,754,336	44,754,336	188,866,639	171,754,657	39,563,963	18,220,974	273,184,938	216,972,936
Total liabilities	90,242,929	74,729,036	382,149,700	374,076,504	66,392,896	47,727,730	538,785,525	496,533,270
Total fund equity and liabilities	\$ 282,359,362	\$ 295,831,904	\$ 729,622,896	\$ 726,529,212	\$ 682,463,818	\$ 654,244,920	\$ 1,694,446,076	\$ 1,676,606,036

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SEWERAGE AND WATER BOARD OF NEW ORLEANS

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS BY DEPARTMENT

ENTERPRISE FUND

For the years ended December 31, 2005 and 2004

	Water System		Sewerage System		Drainage System		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>Operating revenues:</b>								
Sales of water and delinquent fees	\$ 38,727,266	\$ 54,234,144	\$ -	\$ -	\$ -	\$ -	\$ 38,727,266	54,234,144
Sewerage service charges	87,630	116,574	57,329,963	72,252,114	-	-	57,329,963	72,252,114
Plumbing inspection and license fees	1,901,997	2,087,717	87,630	116,573	-	-	175,260	233,147
Other revenues	40,716,893	56,438,435	256,648	284,927	1,013,058	971,224	3,171,703	3,343,868
<b>Total revenues</b>	<b>80,432,786</b>	<b>112,856,869</b>	<b>344,667,241</b>	<b>451,165,614</b>	<b>1,013,058</b>	<b>971,224</b>	<b>348,112,051</b>	<b>456,511,356</b>
<b>Operating Expenses:</b>								
Power and pumping	3,903,087	11,826,156	2,353,793	2,440,968	5,561,224	8,067,310	11,818,104	22,334,434
Treatment	4,772,674	4,606,400	8,963,841	12,525,522	-	-	13,736,515	17,131,922
Transmission and distribution	10,642,815	12,096,326	5,874,951	6,665,576	1,914,765	2,084,779	18,432,531	20,846,681
Customer accounts	1,206,819	1,312,879	1,206,812	1,312,872	-	-	2,413,631	2,625,751
Customer service	1,322,804	1,427,818	1,322,800	1,427,813	-	-	2,645,604	2,855,631
Administration and general	5,965,300	6,152,906	4,602,831	5,783,280	1,562,642	3,042,778	12,130,773	14,978,964
Payroll related	9,719,859	9,200,225	5,996,566	5,688,557	4,063,823	3,906,082	19,780,248	18,794,864
Maintenance of general plant	15,412,637	5,071,780	4,553,406	2,535,024	8,025,407	3,157,752	27,991,450	10,764,556
Depreciation	13,573,808	13,761,902	12,442,668	11,869,932	13,171,194	12,969,094	39,187,670	38,600,928
Amortization	17,038	17,038	331,789	266,500	11,618	11,618	360,445	295,156
Provision for doubtful accounts	2,769,572	1,533,473	3,812,694	1,184,703	199	-	6,582,465	2,718,176
Provision for claims	504,923	54,648	(1,802,506)	1,079,493	8,587,573	1,752,753	7,289,990	2,886,894
<b>Total operating expenses</b>	<b>69,811,336</b>	<b>67,061,551</b>	<b>49,659,645</b>	<b>52,780,240</b>	<b>42,898,445</b>	<b>34,992,166</b>	<b>162,369,426</b>	<b>154,833,957</b>
<b>Operating income (loss)</b>	<b>(10,994,443)</b>	<b>(10,623,116)</b>	<b>8,014,596</b>	<b>19,873,374</b>	<b>(41,885,387)</b>	<b>(34,020,942)</b>	<b>(62,965,234)</b>	<b>(24,770,684)</b>
<b>Non-operating revenues (expenses):</b>								
Two-mill tax	-	-	-	-	1,407	5,192	1,407	5,192
Three-mill tax	-	-	-	-	12,990,040	12,199,559	12,990,040	12,199,559
Six-mill tax	-	-	-	-	13,152,643	12,352,092	13,152,643	12,352,092
Nine-mill tax	-	-	-	-	19,707,787	18,508,104	19,707,787	18,508,104
Other taxes	281,159	331,223	350,659	413,099	-	-	631,818	744,322
Operating and maintenance grants	1,657,875	-	6,211,781	-	1,468,872	-	9,338,528	-
Interest income	-	-	820,722	46,551	2,470,767	1,305,874	3,291,489	1,352,425
Hurricane loss	(11,147,181)	-	(29,952,746)	-	(14,809,335)	-	(55,909,262)	-
Interest expense	(1,197)	-	(1,197)	-	(598)	-	(2,992)	-
<b>Total non-operating revenues (expenses)</b>	<b>(9,209,344)</b>	<b>331,223</b>	<b>(22,570,781)</b>	<b>459,650</b>	<b>34,981,583</b>	<b>44,370,821</b>	<b>3,201,458</b>	<b>45,161,694</b>
<b>Income before capital contributions</b>	<b>(38,303,787)</b>	<b>(10,291,893)</b>	<b>(14,556,185)</b>	<b>20,333,024</b>	<b>(6,903,804)</b>	<b>10,349,879</b>	<b>(59,763,776)</b>	<b>20,391,010</b>
<b>Capital contributions</b>	<b>9,317,352</b>	<b>1,255,539</b>	<b>9,576,673</b>	<b>2,853,224</b>	<b>16,457,536</b>	<b>18,016,197</b>	<b>35,351,561</b>	<b>22,124,960</b>
<b>Change in net assets</b>	<b>(28,986,435)</b>	<b>(9,036,354)</b>	<b>(4,979,512)</b>	<b>23,186,248</b>	<b>9,553,732</b>	<b>28,366,076</b>	<b>(24,412,215)</b>	<b>42,515,970</b>
<b>Net assets, beginning of year</b>	<b>221,102,868</b>	<b>230,139,222</b>	<b>352,452,708</b>	<b>329,266,460</b>	<b>606,517,190</b>	<b>578,151,114</b>	<b>1,180,072,766</b>	<b>1,137,556,796</b>
<b>Net assets, end of year</b>	<b>\$ 192,116,433</b>	<b>\$ 221,102,868</b>	<b>\$ 347,473,196</b>	<b>\$ 352,452,708</b>	<b>\$ 616,070,922</b>	<b>\$ 606,517,190</b>	<b>\$ 1,155,660,551</b>	<b>\$ 1,180,072,766</b>

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## SEWERAGE AND WATER BOARD OF NEW ORLEANS

## SCHEDULE OF PROPERTY, PLANT, AND EQUIPMENT BY DEPARTMENT

DECEMBER 31, 2005 AND 2004

	2005			
	Water	Sewer	Drainage	Total
Real estate rights, non depreciable	\$ 2,898,138	\$ 928,537	\$ 4,810,948	\$ 8,637,623
Power and pumping stations - buildings	55,259,353	28,367,231	188,813,477	272,440,061
Power and pumping stations - machinery	111,204,597	28,330,336	82,774,424	222,309,357
Distribution systems	119,781,310	-	-	119,781,310
Sewerage collection	-	221,151,432	-	221,151,432
Canals and subsurface drainage	-	-	280,333,767	280,333,767
Treatment plants	-	109,084,206	-	109,084,206
Connections and meters	27,548,619	10,395,959	-	37,944,578
Power transmission	7,479,863	5,006,170	11,197,394	23,683,427
General plant	79,389,520	56,315,935	40,101,305	175,806,760
General buildings	2,525,548	1,093,325	3,967,674	7,586,547
<b>Total property, plant and equipment in service</b>	<b>406,086,948</b>	<b>460,673,131</b>	<b>611,998,989</b>	<b>1,478,759,068</b>
Construction in progress	48,369,248	194,204,798	129,814,782	372,388,828
<b>Total property, plant and equipment</b>	<b>454,456,196</b>	<b>654,877,929</b>	<b>741,813,771</b>	<b>1,851,147,896</b>
Accumulated depreciation	212,729,242	146,244,772	174,875,053	533,849,067
<b>Net property, plant and equipment</b>	<b>\$ 241,726,954</b>	<b>508,633,157</b>	<b>566,938,718</b>	<b>1,317,298,829</b>
	2004			
	Water	Sewer	Drainage	Total
Real estate rights, non depreciable	\$ 2,898,138	\$ 922,911	\$ 4,810,948	\$ 8,631,997
Power and pumping stations - buildings	52,769,709	25,650,685	174,361,906	252,782,300
Power and pumping stations - machinery	110,516,493	28,922,194	90,795,312	230,233,999
Distribution systems	118,769,391	-	-	118,769,391
Sewerage collection	-	191,983,305	-	191,983,305
Canals and subsurface drainage	-	-	277,039,373	277,039,373
Treatment plants	-	117,214,963	-	117,214,963
Connections and meters	29,224,493	12,749,974	-	41,974,467
Power transmission	8,817,200	5,358,903	11,662,230	25,838,333
General plant	93,028,170	65,803,768	48,322,310	207,154,248
General buildings	3,088,445	1,336,972	4,852,009	9,277,426
<b>Total property, plant and equipment in service</b>	<b>419,112,039</b>	<b>449,943,675</b>	<b>611,844,088</b>	<b>1,480,899,802</b>
Construction in progress	36,110,449	188,336,420	121,069,465	345,516,334
<b>Total property, plant and equipment</b>	<b>455,222,488</b>	<b>638,280,095</b>	<b>732,913,553</b>	<b>1,826,416,136</b>
Accumulated depreciation	215,202,924	161,027,243	170,743,056	546,973,223
<b>Net property, plant and equipment</b>	<b>\$ 240,019,564</b>	<b>477,252,852</b>	<b>562,170,497</b>	<b>1,279,442,913</b>

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## SEWERAGE AND WATER BOARD OF NEW ORLEANS

## SCHEDULE OF BONDS PAYABLE

	DECEMBER 31, 2005							
	Average Annual Interest Rates	Interest Payment Dates	Issue Date	Final Maturity Date	Outstanding as of 12/31/2004	New Debt in 2005	Payments in 2005	Outstanding as of 12/31/2005
Drainage System Bonds, 1998 (9-Mills)	4.84%	(6/1;12/1)	12/01/98	12/01/18	7,930,000	-	405,000	7,525,000
Drainage System Bonds, 2002 (9-Mills)	4.46%	(6/1;12/1)	10/01/02	12/01/22	18,955,000	-	560,000	18,395,000
					26,885,000	-	965,000	25,920,000
Sewer Revenue Bonds, 1997	5.36%	(6/1;12/1)	06/01/97	06/01/17	23,165,000	-	1,245,000	21,920,000
Sewer Revenue Bonds, 1998	4.82%	(6/1;12/1)	12/01/98	06/01/18	20,065,000	-	1,030,000	19,035,000
Sewer Revenue Bonds, 2000	5.48%	(6/1;12/1)	05/01/00	06/01/20	23,610,000	-	920,000	22,690,000
Sewer Revenue Bonds, 2000-B	5.43%	(6/1;12/1)	11/01/00	06/01/20	18,030,000	-	715,000	17,315,000
Sewer Revenue Bonds, 2001	5.02%	(6/1;12/1)	12/01/01	06/01/21	29,545,000	-	1,195,000	28,350,000
Sewer Revenue Bonds, 2002	4.36%	(6/1;12/1)	12/01/02	06/01/22	53,640,000	-	1,820,000	51,820,000
Sewer Revenue Bonds, 2003	3.94%	(6/1;12/1)	12/03/03	06/01/23	5,360,000	-	210,000	5,150,000
Sewer Revenue Bonds, 2004	4.26%	(6/1;12/1)	12/01/04	06/01/24	33,000,000	-	1,130,000	31,870,000
Sewer Revenue Refunding Bond Anticipation Notes, 2004	2.75%	(7/29)	07/30/04	07/29/05	111,800,000	-	111,800,000	-
Sewer Revenue Refunding Bond Anticipation Notes, 2004	2.50%	(7/29)	12/16/04	07/29/05	25,200,000	-	25,200,000	-
Sewer Revenue Bond Anticipation Notes, 2005	2.68%	(7/26)	07/28/05	07/26/06	-	137,000,000	-	137,000,000
					343,415,000	137,000,000	145,265,000	335,150,000
Water Revenue Bonds, 1998	4.82%	(6/1;12/1)	12/01/98	12/01/18	12,845,000	-	660,000	12,185,000
Water Revenue Bonds, 2002	4.57%	(6/1;12/1)	10/01/02	12/01/22	33,055,000	-	995,000	32,060,000
					45,900,000	-	1,655,000	44,245,000
TOTAL					416,200,000	137,000,000	147,885,000	405,315,000

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SEWERAGE AND WATER BOARD OF NEW ORLEANS  
 SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS  
 DEBT SERVICE AND DEBT SERVICE RESERVE  
 REQUIRED BY BOND RESOLUTION

For the year ended December 31, 2005

	Debt Service Account			Debt Service Reserve Accounts		
	Water Revenue Bonds	Sewer Revenue Bonds	Total	Water Revenue Bonds	Sewer Revenue Bonds	Total
Cash and investments at beginning of year	\$ 628,276	\$ 8,376,050	\$ 9,004,326	\$ 3,928,380	\$ 18,325,688	\$ 22,254,068
Cash receipts:						
Bond proceeds and accrued interest	730,026	138,002,493	138,732,519	-	-	-
Transfers from operating cash and debt service reserve	2,510,103	14,775,200	17,285,303	-	-	-
Total cash and investments	3,868,405	161,153,743	165,022,148	3,928,380	18,325,688	22,254,068
Cash disbursements:						
Principal and interest payments, cost of issuance and transfers	3,867,662	159,272,270	163,139,932	-	-	-
Total cash disbursements	3,867,662	159,272,270	163,139,932	-	-	-
Cash and investments at end of year	\$ 743	\$ 1,881,473	\$ 1,882,216	\$ 3,928,380	\$ 18,325,688	\$ 22,254,068

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**SEWERAGE AND WATER BOARD OF NEW ORLEANS**  
**CHANGES IN SELF-INSURANCE LIABILITIES BY DEPARTMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Beginning of Year	Current Year Claims and Estimate Change	Payments	End of Year
<b><u>WATER</u></b>				
Short-term:				
Workers' compensation	\$ 373,465	\$ 648,263	\$ 716,665	\$ 305,063
Health insurance	1,047,541	5,131,820	4,993,420	1,185,942
General liability	4,545,392	19,484	604,520	3,960,356
Total short-term	<u>5,966,398</u>	<u>5,799,567</u>	<u>6,314,605</u>	<u>5,451,360</u>
Long-term:				
Workers' compensation	2,086,756	(162,823)	-	1,923,933
General liability	900,000	-	300,000	600,000
Total long-term	<u>2,986,756</u>	<u>(162,823)</u>	<u>300,000</u>	<u>2,523,933</u>
Total	<u>\$ 8,953,154</u>	<u>\$ 5,636,744</u>	<u>\$ 6,614,605</u>	<u>\$ 7,975,294</u>
<b><u>SEWERAGE</u></b>				
Short-term:				
Workers' compensation	\$ 373,464	\$ 648,265	\$ 716,666	\$ 305,063
Health insurance	619,973	3,146,167	3,040,053	726,087
General liability	6,576,740	(2,287,948)	178,566	4,110,226
Total short-term	<u>7,570,177</u>	<u>1,506,484</u>	<u>3,935,286</u>	<u>5,141,375</u>
Long-term:				
Workers' compensation	2,086,756	(162,823)	-	1,923,933
General liability	-	-	-	-
Total long-term	<u>2,086,756</u>	<u>(162,823)</u>	<u>-</u>	<u>1,923,933</u>
Total	<u>\$ 9,656,933</u>	<u>\$ 1,343,661</u>	<u>\$ 3,935,286</u>	<u>\$ 7,065,308</u>
<b><u>DRAINAGE</u></b>				
Short-term:				
Workers' compensation	\$ 373,464	\$ 648,264	\$ 716,666	\$ 305,062
Health insurance	470,324	2,230,596	2,192,659	508,261
General liability	8,559,964	7,424,710	220,384	15,764,290
Total short-term	<u>9,403,752</u>	<u>10,303,570</u>	<u>3,129,710</u>	<u>16,577,612</u>
Long-term:				
Workers' compensation	2,086,756	(162,823)	-	1,923,933
General liability	1,500,000	-	1,500,000	-
Total long-term	<u>3,586,756</u>	<u>(162,823)</u>	<u>1,500,000</u>	<u>1,923,933</u>
Total	<u>\$ 12,990,508</u>	<u>\$ 10,140,747</u>	<u>\$ 4,629,710</u>	<u>\$ 18,501,545</u>
<b><u>TOTAL</u></b>				
Short-term:				
Workers' compensation	\$ 1,120,393	\$ 1,944,792	\$ 2,149,998	\$ 915,187
Health insurance	2,137,838	10,508,584	10,226,133	2,420,289
General liability	19,682,096	5,156,246	1,003,470	23,834,872
Total short-term	<u>22,940,327</u>	<u>17,609,621</u>	<u>13,379,601</u>	<u>27,170,348</u>
Long-term:				
Workers' compensation	6,260,268	(488,469)	-	5,771,799
General liability	2,400,000	-	1,800,000	600,000
Total long-term	<u>8,660,268</u>	<u>(488,469)</u>	<u>1,800,000</u>	<u>6,371,799</u>
Total	<u>\$ 31,600,595</u>	<u>\$ 17,121,153</u>	<u>\$ 15,179,601</u>	<u>\$ 33,542,147</u>

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