
SEWERAGE AND WATER BOARD OF NEW ORLEANS

FINANCIAL STATEMENTS AND SCHEDULES

DECEMBER 31, 2005



Postlethwaite & Netterville

A Professional Accounting Corporation

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SEWERAGE AND WATER BOARD OF NEW ORLEANS

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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%
Total assets	\$ 1,694,446,076	\$ 1,676,606,036	\$ 17,840,040	1.1%
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%
Total liabilities	538,785,525	496,533,270	42,252,255	8.5%
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%
Total net assets	1,155,660,551	1,180,072,766	(24,412,215)	-2.1%
Total liabilities and net assets	\$ 1,694,446,076	\$ 1,676,606,036	\$ 17,840,040	1.1%

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%
Total assets	\$ 1,676,606,036	\$ 1,582,591,319	\$ 94,014,717	5.9%
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%
Total liabilities	496,533,270	445,034,523	51,498,747	11.6%
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%
Total net assets	1,180,072,766	1,137,556,796	42,515,970	3.7%
Total liabilities and net assets	\$ 1,676,606,036	\$ 1,582,591,319	\$ 94,014,717	5.9%

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%
Total operating revenues	99,404,192	130,063,273	(30,659,081)	-23.6%
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%
Total non-operating revenues	3,201,458	45,161,694	(41,960,236)	-92.9%
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%
Change in net assets	(24,412,215)	42,515,970	(66,928,185)	-157.4%
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%
Total operating expenses	\$ 162,369,426	\$ 154,833,957	\$ 7,535,469	4.9%

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%
Total operating revenues	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%
Total non-operating revenues	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%
Change in net assets	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%
Total operating expenses	\$ 154,833,957	\$ 143,095,962	\$ 11,737,995	8.2%

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%
Total assets	206,230,254	202,855,173	3,375,081	1.7%
DROP participant payable	\$ 3,593,654	\$ 4,571,050	\$ (977,396)	-21.4%
Due to other fund	231,509	-	231,509	100.0%
Total liabilities	3,825,163	4,571,050	(745,887)	-16.3%
Plan net assets	\$ 202,405,091	\$ 198,284,123	\$ 4,120,968	2.1%