
SEWERAGE AND WATER BOARD OF NEW ORLEANS

FINANCIAL STATEMENTS AND SCHEDULES

DECEMBER 31, 2007

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

7-30-08



Postlethwaite
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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, 2007 and 2006, 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, 2007 and 2006, 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 June 24, 2008, 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 2007 and 2006 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
June 24, 2008

SEWERAGE & WATER BOARD OF NEW ORLEANS

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2007

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, 2007. Please read it in conjunction with the Board's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Recovery from Hurricane Katrina and the resulting flooding continued to be the most significant event to occur during 2007. Repairs to water, sewerage, and drainage systems, building repairs, and vehicle and equipment repairs continued throughout 2007. During 2007, the Board adopted Governmental Accounting Standards Board Statement No. 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which resulted in the recognition of a liability on the financial statements and additional disclosures in the footnotes to the financial statements.

Enterprise Fund

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

2007

- The Board's additions to its major systems approximated \$91.4 million.
- The SELA project which is a major upgrade to the drainage system by the Corps of Engineers continued to be postponed during 2007 with no additions to work in progress recorded during the year.
- Federal Emergency Management Agency (FEMA) Disaster Public Assistance grants expended totaled \$69.2 million, of which \$67.4 million were capital contributions and \$1.8 million were for operating and maintenance expenses.

2006

- The Board's additions to its major systems approximated \$105.9 million.
- The SELA project which is a major upgrade to the drainage system by the Corps of Engineers was postponed during 2006 with no additions to work in progress recorded during the year.
- The Board refunded during July 2006 \$24 million of the \$137 million in short term bond anticipation notes originally issued in July 2005.
- Federal Emergency Management Agency (FEMA) Disaster Public Assistance grants expended totaled \$74.2 million, of which \$39.2 million were capital contributions and \$35.0 million were for operating, maintenance and debris removal expenses.

Pension Trust Fund

2007

The major highlight in the Board's pension trust fund was the weakening financial performance in the stock market as compared to 2006 and the resulting appreciation of \$5.2 million in the market value of the investments held by the plan during 2007, 78.6% less than the appreciation during 2006. The plan net assets available of benefits increased to \$227.8 million.

2006

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 \$24.4 million in the market value of the investments held by the plan during 2006. The plan net assets available of benefits increased to \$225.9 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 section 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 Board 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

2007 Net Assets

The Board's total assets at December 31, 2007 were approximately \$1.8 billion, a 5.4% increase over December 31, 2006 (see Table A-1).

Table A-1				
Sewerage & Water Board of New Orleans				
Net Assets				
	2007	2006	Increase (Decrease)	Increase (Decrease)
Current assets	\$ 130,654,155	\$ 97,310,544	\$ 33,343,611	34.3%
Restricted assets	191,182,517	189,820,167	1,362,350	0.7%
Property, plant and equipment - net	1,445,498,226	1,389,245,880	56,252,346	4.0%
Other assets	4,185,361	5,168,276	(982,915)	-19.0%
Total assets	\$ 1,771,520,259	\$ 1,681,544,867	\$ 89,975,392	5.4%
Current liabilities	\$ 115,274,616	\$ 104,679,864	\$ 10,594,752	10.1%
Long-term liabilities	390,323,513	363,092,090	27,231,423	7.5%
Total liabilities	505,598,129	467,771,954	37,826,175	8.1%
Net assets:				
Invested in capital assets, net of related debt	1,245,350,533	1,183,354,778	61,995,755	5.2%
Restricted	20,571,597	30,418,135	(9,846,538)	-32.4%
Total net assets	1,265,922,130	1,213,772,913	52,149,217	4.3%
Total liabilities and net assets	\$ 1,771,520,259	\$ 1,681,544,867	\$ 89,975,392	5.4%

The increase in total assets of \$90.0 million resulted primarily from an increase in property, plant and equipment of \$56.3 million in 2007 due to \$9.1 million in construction funds expended and \$72.0 million of capital contributions less the annual provision for depreciation of \$37.3 million, payments made on revenue bonds of \$12.0 million offset by new loans of \$40.1 million borrowed through the Special Community Disaster Loan program and the Debt Service Assistance Fund program. Current liabilities increased by \$10.6 million and long-term liabilities increased by \$27.2 million in 2007 as compared to 2006 due primarily to debt service payments made on revenue bonds offset by additional debt from the Special Community Disaster loan and the Debt Service Assistance Fund loan.

2006 Net Assets

The Board's total assets at December 31, 2006 reached approximately \$1.7 billion, a 0.8% decrease over December 31, 2005 (see Table A-2).

	2006	2005	Increase (Decrease)	Increase (Decrease)
Current assets	\$ 97,310,544	\$ 73,067,066	\$ 24,243,478	33.2%
Restricted assets	189,820,167	298,455,080	(108,634,913)	-36.4%
Property, plant and equipment - net	1,389,245,880	1,317,298,829	71,947,051	5.5%
Other assets	5,168,276	5,625,101	(456,825)	-8.1%
Total assets	\$ 1,681,544,867	\$ 1,694,446,076	\$ (12,901,209)	-0.8%
Current liabilities	\$ 104,679,864	\$ 273,184,938	\$ (168,505,074)	-61.7%
Long-term liabilities	363,092,090	265,600,587	97,491,503	36.7%
Total liabilities	467,771,954	538,785,525	(71,013,571)	-13.2%
Net assets:				
Invested in capital assets, net of related debt	1,183,354,778	1,092,139,700	91,215,078	8.4%
Restricted	30,418,135	63,520,851	(33,102,716)	-52.1%
Total net assets	1,213,772,913	1,155,660,551	58,112,362	5.0%
Total liabilities and net assets	\$ 1,681,544,867	\$ 1,694,446,076	\$ (12,901,209)	-0.8%

The decrease in total assets of \$12.9 million resulted primarily from an increase in property, plant and equipment of \$71.9 million in 2006 due to \$14.6 million in construction funds expended and \$42.6 million of capital contributions less the annual provision for depreciation of \$36.5 million, payments made on bond anticipation notes of \$113.0 million offset by new loans of \$86.5 million borrowed through the Special Community Disaster Loan program and the Debt Service Assistance Fund program. Current liabilities decreased by \$168.5 million and long-term liabilities increased by \$97.5 million in 2006 as compared to 2005 due primarily to debt service payments made on revenue bonds offset by additional debt from the Special Community Disaster loan and the Debt Service Assistance Fund loan.

2007 Changes in Net Assets

The change in net assets for the year ended December 31, 2007 was approximately \$6.0 million or 10.3% less than the change in net assets for the year ended December 31, 2006. The Board's total operating revenues increased by 9.8% to approximately \$110.2 million, and total operating expenses increased 7.5% to approximately \$171.9 million. The changes in net assets are detailed in Table A-3; operating expenses are detailed in Table A-4.

	2007	2006	Increase (Decrease)	Increase (Decrease)
Operating revenues:				
Charges for services	\$ 106,642,409	\$ 97,047,638	\$ 9,594,771	9.9%
Other	3,559,801	3,290,683	269,118	8.2%
Total operating revenues	110,202,210	100,338,321	9,863,889	9.8%
Operating expenses (Table A-3)	171,852,734	159,860,151	11,992,583	7.5%
Operating loss	(61,650,524)	(59,521,830)	(2,128,694)	-3.6%
Non-operating revenues:				
Property taxes	36,667,904	33,175,028	3,492,876	10.5%
Other taxes	443,122	634,321	(191,199)	-30.1%
Operating and maintenance grants	1,777,188	35,013,143	(33,235,955)	-94.9%
Hurricane gain	205,995	2,303,397	(2,097,402)	-91.1%
Investment income (expense)	2,750,426	3,862,568	(1,112,142)	-28.8%
Total non-operating revenues	41,844,635	74,988,457	(33,143,822)	-44.2%
Income before capital contributions	(19,805,889)	15,466,627	(35,272,516)	-228.1%
Capital contributions	71,955,106	42,645,735	29,309,371	68.7%
Change in net assets	52,149,217	58,112,362	(5,963,145)	-10.3%
Net assets, beginning of year	1,213,772,913	1,155,660,551	58,112,362	5.0%
Net assets, end of year	\$ 1,265,922,130	\$ 1,213,772,913	\$ 52,149,217	4.3%

Operating revenues increased primarily as a result of an increase in sewerage rates offset by a decline in volume due to decreases in the customer base following Hurricane Katrina. Property taxes increased by \$3.5 million in 2007 due to an increase in assessed value.

Capital revenue from federal grants and construction of Board property by other agencies increased by 68.7% to \$72.0 million. Operating and maintenance grants decreased by 94.9% to \$1.8 million. Capital contributions and operating and maintenance grants are primarily related to FEMA Disaster Public Assistance grants. Hurricane gain consisted of \$0.2 million in proceeds from the sale of scrapped equipment damaged during Hurricane Katrina in 2007 and insurance recoveries of \$2.3 million in 2006.

	2007	2006	Increase (Decrease)	Increase (Decrease)
Power and pumping	\$ 13,041,954	\$ 11,576,640	\$ 1,465,314	12.7%
Treatment	16,280,975	13,518,870	2,762,105	20.4%
Transmission and distribution	19,832,226	13,845,793	5,986,433	43.2%
Customer accounts	2,290,092	1,910,612	379,480	19.9%
Customer service	2,670,145	2,265,250	404,895	17.9%
Administration and general	14,899,028	13,714,644	1,184,384	8.6%
Payroll related	28,259,815	17,914,694	10,345,121	57.7%
Maintenance of general plant	26,593,626	23,344,667	3,648,959	15.6%
Depreciation	37,262,536	36,546,373	716,163	2.0%
Amortization	158,019	208,045	(50,026)	-24.0%
Provision for doubtful accounts	12,613,283	22,355,906	(9,742,623)	-43.6%
Provision for claims	(2,448,965)	2,658,657	(5,107,622)	-192.1%
Total operating expenses	\$ 171,852,734	\$ 159,860,151	\$ 11,992,583	7.5%

The increase in power and pumping expenses in 2007 of \$1.5 million or 12.7% is primarily due to increases in the cost of natural gas and increased fuel consumption. The increase in treatment expenses in 2007 of \$2.8 million or 20.4% is primarily due to an increase in the costs of chemicals and continued leaks in the system, which result in the treatment of more water than under normal circumstances. The increase in transmission and distribution expenses in 2007 of \$6.0 million or 43.2% is primarily due to additional costs related to repairs of leaks in the system and increases in contractor and material costs. The increase in payroll related expenses in 2007 of \$10.3 million or 57.7% is primarily due to \$6.6 million recognized for other postretirement benefits liability in connection with the implementation of GASB 4, as well as salary increases in accordance with City of New Orleans Civil Service, individual pay plan increases for certain departments, and increases in hospitalization expense. The increase in maintenance of general plant in 2007 of \$3.6 million or 15.6% resulted primarily from increases in the cost of high pressure gas, materials, supplies, contracts, fuel and electricity for all facilities and increases in payroll related costs, professional services, and consulting costs. Provisions for doubtful accounts decreased by \$9.7 million or 43.6% in 2007 as a result of a smaller increase in closed accounts which are fully reserved than in 2006 and additional reserves for amounts not expected to be collected following Hurricane Katrina recognized during 2006. Provisions for claims decreased by \$5.1 million or 192.1% in 2007 as compared to 2006. Claims expense varies due to the number and severity of the claims during any period. The decrease is due primarily to several large decreases in reserves recognized during 2007.

2006 Changes in Net Assets

The change in net assets for the year ended December 31, 2006 was approximately \$58.1 million or 338.0% more than the change in net assets for the year ended December 31, 2005. The Board's total operating revenues increased by 0.9% to approximately \$100.3 million, and total operating expenses decreased 1.5% to approximately \$159.9 million. The changes in net assets are detailed in Table A-5; operating expenses are detailed in Table A-6.

	2006	2005	Increase (Decrease)	Increase (Decrease)
Operating revenues:				
Charges for services	\$ 97,047,638	\$ 96,232,489	\$ 815,149	0.8%
Other	3,290,683	3,171,703	118,980	3.8%
Total operating revenues	100,338,321	99,404,192	934,129	0.9%
Operating expenses (Table A-3)	159,860,151	162,369,426	(2,509,275)	-1.5%
Operating loss	(59,521,830)	(62,965,234)	3,443,404	-5.5%
Non-operating revenues:				
Property taxes	33,175,028	45,851,877	(12,676,849)	-27.6%
Other taxes	634,321	631,818	2,503	0.4%
Operating and maintenance grants	35,013,143	9,338,528	25,674,615	274.9%
Hurricane loss	2,303,397	(55,909,262)	58,212,659	-104.1%
Investment income (expense)	3,862,568	3,288,497	574,071	17.5%
Total non-operating revenues	74,988,457	3,201,458	71,786,999	2242.3%
Income before capital contributions	15,466,627	(59,763,776)	75,230,403	-125.9%
Capital contributions	42,645,735	35,351,561	7,294,174	20.6%
Change in net assets	58,112,362	(24,412,215)	82,524,577	-338.0%
Net assets, beginning of year	1,155,660,551	1,180,072,766	(24,412,215)	-2.1%
Net assets, end of year	\$ 1,213,772,913	\$ 1,155,660,551	\$ 58,112,362	5.0%

Operating revenues increased primarily as a result of an increase in sewerage rates offset by a decline in volume due to decreases in the customer base following Hurricane Katrina. Property taxes decreased by \$12.7 million in 2006 due to a decrease in assessed value.

Capital revenue from federal grants and construction of Board property by other agencies increased by 20.6% to \$42.6 million. Operating and maintenance grants increased by 274.9% to \$35.0 million. Capital contributions and operating and maintenance grants related to FEMA Disaster Public Assistance grants. Hurricane gain (loss) consisted of insurance recoveries of \$2.3 million in 2006 and \$55.9 million of property and inventory losses in 2005.

	2006	2005	Increase (Decrease)	Increase (Decrease)
Power and pumping	\$ 11,576,640	\$ 11,818,104	\$ (241,464)	-2.0%
Treatment	13,518,870	13,736,515	(217,645)	-1.6%
Transmission and distribution	13,845,793	18,432,531	(4,586,738)	-24.9%
Customer accounts	1,910,612	2,413,631	(503,019)	-20.8%
Customer service	2,265,250	2,645,604	(380,354)	-14.4%
Administration and general	13,714,644	12,130,773	1,583,871	13.1%
Payroll related	17,914,694	19,780,248	(1,865,554)	-9.4%
Maintenance of general plant	23,344,667	27,991,450	(4,646,783)	-16.6%
Depreciation	36,545,373	39,187,670	(2,641,297)	-6.7%
Amortization	208,045	360,445	(152,400)	-42.3%
Provision for doubtful accounts	22,355,906	6,582,465	15,773,441	239.6%
Provision for claims	2,658,657	7,289,990	(4,631,333)	-63.5%
Total operating expenses	\$ 159,860,151	\$ 162,369,426	\$ (2,509,275)	-1.5%

The decrease in transmission and distribution expenses in 2006 of \$4.6 million or 24.9% is primarily due to a reduction in the volume of water service demands on the east bank of New Orleans and a decrease in salaries and payroll related services due to a reduction in staff, all caused by Hurricane Katrina. The decrease in maintenance of general plant in 2006 of \$4.6 million or 16.6% resulted primarily from decreases over 2005 in salaries and payroll related expenses, professional services, consulting, and equipment repairs to restore systems following Hurricane Katrina. Depreciation expense decreased by \$2.6 million or 6.7% due to less depreciation expense in 2006 as a result of losses recognized as a result of Hurricane Katrina in 2005. Provisions for doubtful accounts increased by \$15.8 million or 239.6% in 2006 as compared to 2005 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 decreased by \$4.6 million or 63.5% in 2006 as compared to 2005. Claims expense varies due to the number and severity of the claims during any period. The decrease is due primarily to several large judgments rendered in 2005.

PENSION TRUST FUND

2007 Plan Net Assets

The Board's total plan net assets of its pension trust fund at December 31, 2007 was approximately \$227.8 million, a 0.8% increase over December 31, 2006 (see table A-7). Total assets increased 1.1% to \$231.8 million.

Table A-7				
Sewerage & Water Board of New Orleans				
Plan Net Assets				
	2007	2006	Increase (Decrease)	Increase (Decrease)
Cash	\$ 102,653	\$ 1,104,112	\$ (1,001,459)	-90.7%
Investments	231,011,414	227,419,270	3,592,144	1.6%
Receivables	420,795	547,587	(126,792)	-23.2%
Other assets	257,562	113,203	144,359	100.0%
Total assets	231,792,424	229,184,172	2,608,252	1.1%
DROP participant payable	\$ 3,966,600	\$ 3,247,090	\$ 719,510	22.2%
Due to other fund	-	-	-	-100.0%
Total liabilities	3,966,600	3,247,090	719,510	22.2%
Plan net assets	\$ 227,825,824	\$ 225,937,082	\$ 1,888,742	0.8%

Plan net assets increased by \$1.9 million in 2007 primarily due to realized and unrealized gains on investments recognized in 2007.

2006 Plan Net Assets

The Board's total plan net assets of its pension trust fund at December 31, 2006 was approximately \$225.9 million, a 11.6% increase over December 31, 2005 (see table A-8). Total assets increased 11.1% to \$229.2 million.

Table A-8				
Sewerage & Water Board of New Orleans				
Plan Net Assets				
	2006	2005	Increase (Decrease)	Increase (Decrease)
Cash	\$ 1,104,112	\$ 207,806	\$ 896,306	431.3%
Investments	227,419,270	205,248,652	22,170,618	10.8%
Receivables	547,587	773,796	(226,209)	-29.2%
Other assets	113,203	-	113,203	100.0%
Total assets	229,184,172	206,230,254	22,953,918	11.1%
DROP participant payable	\$ 3,247,090	\$ 3,593,654	\$ (346,564)	-9.6%
Due to other fund	-	231,509	(231,509)	100.0%
Total liabilities	3,247,090	3,825,163	(578,073)	-15.1%
Plan net assets	\$ 225,937,082	\$ 202,405,091	\$ 23,531,991	11.6%

Plan net assets increased by \$23.5 million in 2006 primarily due to realized and unrealized gains on investments recognized in 2006.

2007 Changes in Plan Net Assets

Table A-9				
Sewerage & Water Board of New Orleans				
Change in Plan Net Assets				
	2007	2006	Increase (Decrease)	Increase (Decrease)
Additions:				
Contributions	\$ 6,753,824	\$ 6,683,136	\$ 70,688	1.1%
Net income on investments	7,947,645	29,080,710	(21,133,065)	-72.7%
Total additions	14,701,469	35,763,846	(21,062,377)	-58.9%
Deductions:				
Benefits	(10,625,533)	(9,905,119)	(720,414)	7.3%
Employee refunds	(215,746)	(680,769)	465,023	-68.3%
Employee DROP contributions	(1,971,448)	(1,645,967)	(325,481)	19.8%
Total deductions	(12,812,727)	(12,231,855)	(580,872)	4.7%
Change in net assets	1,888,742	23,531,991	(21,643,249)	-92.0%
Plan net assets, beginning of year	225,937,082	202,405,091	23,531,991	11.6%
Plan net assets, end of year	\$ 227,825,824	\$ 225,937,082	\$ 1,888,742	0.8%

Net income on investments decreased by \$21.1 million or 72.7% during 2007 due to declining performance in the stock market as compared to 2006. The decrease in the change in plan net assets of \$21.6 million resulted primarily from a decrease in unrealized gains on investments in 2007.

2006 Changes in Plan Net Assets

Table A-10				
Sewerage & Water Board of New Orleans				
Change in Plan Net Assets				
	2006	2005	Increase (Decrease)	Increase (Decrease)
Additions:				
Contributions	\$ 6,683,136	\$ 5,607,361	\$ 1,075,775	19.2%
Net income on investments	29,080,710	8,890,315	20,190,395	227.1%
Total additions	35,763,846	14,497,676	21,266,170	146.7%
Deductions:				
Benefits	(9,905,119)	(8,494,829)	(1,410,290)	16.6%
Employee refunds	(680,769)	(149,147)	(531,622)	356.4%
Employee DROP contributions	(1,645,967)	(1,732,732)	86,765	-5.0%
Total deductions	(12,231,855)	(10,376,708)	(1,855,147)	17.9%
Change in net assets	23,531,991	4,120,968	19,411,023	471.0%
Plan net assets, beginning of year	202,405,091	198,284,123	4,120,968	2.1%
Plan net assets, end of year	\$ 225,937,082	\$ 202,405,091	\$ 23,531,991	11.6%

Contributions to the pension plan increased in 2006 as compared to 2005 primarily due to increased transfers in from the City of New Orleans and buy back of service.

The increase in the change in plan net assets of \$19.4 million resulted primarily from an increase in unrealized gains on investments in 2006.

CAPITAL ASSET AND DEBT ADMINISTRATION

2007 Capital Assets

As of December 31, 2007, the Board had invested approximately \$2.0 billion in capital assets. Net of accumulated depreciation, the Board's net capital assets at December 31, 2007 totaled approximately \$1.4 billion. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$56.3 million or 4.0% over December 31, 2006.

At December 31, 2007, the Board's budget for its five year capital improvements program totaled \$2.3 billion including \$430.2 million for water, \$889.1 million for sewerage and \$956.1 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, 2007, the Board has committed or appropriated \$82.5 million in investments for use in future capital projects and has \$70.7 million of bond proceeds remaining for construction. The capital project investments are included in restricted assets.

The capital improvements budget for 2007 is \$427.9 million, including \$132.0 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, 2007 include the following:

Hurricane Katrina related Repairs and Replacement
Southeast Louisiana Flood Control Program
Sewer System Sanitation Evaluation and Rehabilitation Program
Drainage Pumping Stations and Canals
Eastbank Sewer Treatment Plant
Westbank Sewer Treatment Plant

2006 Capital Assets

As of December 31, 2006, the Board had invested approximately \$1.9 billion in capital assets. Net of accumulated depreciation, the Board's net capital assets at December 31, 2006 totaled approximately \$1.4 billion. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$71.9 million or 5.5% over December 31, 2005.

At December 31, 2006, the Board's budget for its five year capital improvements program totaled \$2.0 billion including \$404.0 million for water, \$825.2 million for sewerage and \$802.3 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, 2006, the Board has committed or appropriated \$73.4 million in investments for use in future capital projects and has \$79.8 million of bond proceeds remaining for construction. The capital project investments are included in restricted assets.

The capital improvements budget for 2007 is \$454.8 million, including \$135.4 million for projects, which are expected to be funded by federal grants and programs.

2007 Debt Administration

The Board continues to make its regularly scheduled payments on its bonds. During 2007, \$12.0 million in principal payments were made.

During 2007, the Board made additional draw downs from the Federal Emergency Management Agency under the Community Disaster Loan Act of 2005 totaling \$15.9 million.

The Board entered into a Cooperative Endeavor Agreement with the State of Louisiana in July 2006 to borrow up to \$77.5 million from the Debt Service Assistance Fund. During 2007, the Board made additional draw downs of \$24.2 million on the loan program.

All bond debt covenants have been met.

2006 Debt Administration

The Board continues to make its regularly scheduled payments on its bonds. During 2006, \$24.0 million in new bonds were issued by the Board. Net proceeds of the bond issues were used to refund \$24.0 million of the \$137.0 million of bond anticipation notes from 2005. During 2006, \$148.4 million in principal payments were made.

The Board entered into a loan agreement in January 2006 with the Federal Emergency Management Agency under the Community Disaster Loan Act of 2005. During 2006, the Board made draw downs totaling \$46.0 million on the loan.

The Board entered into a Cooperative Endeavor Agreement with the State of Louisiana in July 2006 to borrow up to \$77.5 million from the Debt Service Assistance Fund. During 2006, the Board made draw downs of \$40.5 million on the loan program.

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 4 and 7.

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 are expected to have a significant impact on 2008. Total FEMA debris removal, mitigation, and capital replacement grants are expected to exceed \$209.0 million. Of these approximately \$184.3 million has been recognized through 2007. FEMA revenues will continue to be recognized as buildings, systems, and other reimbursable assets are repaired or replaced. In 2008, the Board will recognize additional portions 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.

On March 21, 2007, the Board approved a series of five annual water rate increases beginning with the first increase on November 1, 2007 followed by four additional increases to be implemented on July 1 of each year, 2008 through 2011. The New Orleans City Council approved the annual water rate increases on October 4, 2007.

The number of open accounts has decreased from approximately 121,000 at the end of 2005 to approximately 110,000 currently, a decrease of 9.1%.

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, 2007 and 2006

ASSETS	2007	2006
Property, plant and equipment	\$ 2,048,433,759	\$ 1,957,036,563
Less: accumulated depreciation	602,935,533	567,790,683
Property, plant and equipment, net	1,445,498,226	1,389,245,880
Restricted assets:		
Capital projects	82,479,722	73,439,873
Construction funds	70,699,720	79,822,438
Debt service reserve	22,254,068	22,254,068
Customer deposits	4,964,522	4,923,373
Health insurance reserve	4,840,389	4,618,572
Debt service	5,732,096	4,549,843
Other	212,000	212,000
Total restricted assets	191,182,517	189,820,167
Current assets:		
Cash	17,933,399	15,043,720
Accounts receivable:		
Customers (net of allowance for doubtful accounts)	16,106,497	13,713,753
Taxes	4,549,506	9,076,530
Interest	1,141,315	1,211,945
Grants	72,283,123	40,800,812
Miscellaneous	4,650,290	6,887,221
Due from City of New Orleans, current	200,000	200,000
Due from other fund	290,778	290,778
Inventory of supplies	12,176,730	9,598,614
Prepaid expenses	1,322,517	487,171
Total current assets	130,654,155	97,310,544
Due from City of New Orleans, less current portion	97,908	259,494
Other assets:		
Bond issue costs	1,249,443	1,407,462
Deposits	51,315	51,315
Net pension asset	2,786,695	3,450,005
Total other assets	4,087,453	4,908,782
Total assets	\$ 1,771,520,259	\$ 1,681,544,867

SEWERAGE AND WATER BOARD OF NEW ORLEANS
STATEMENTS OF NET ASSETS
(Continued)

NET ASSETS AND LIABILITIES	2007	2006
Net Assets:		
Invested in capital assets - net of related debt	\$ 1,245,350,533	\$ 1,183,354,778
Restricted For:		
Debt service	27,986,164	26,803,911
Capital projects	(7,414,567)	3,614,224
Total restricted for net assets	20,571,597	30,418,135
Total net assets	1,265,922,130	1,213,772,913
Liabilities:		
Long-term liabilities:		
Claims payable	5,556,117	5,471,541
Bonds payable (net of current maturities)	258,155,527	271,010,465
Special Community Disaster loan payable	61,956,747	46,011,566
Debt Service Assistance Fund loan payable	64,655,122	40,494,073
Capital leases payable (net of current maturities)	-	104,445
Total long-term liabilities	390,323,513	363,092,090
Current liabilities (payable from current assets):		
Accounts payable	50,142,494	41,442,070
Due to City of New Orleans	26,933	146,037
Retainers and estimates payable	2,473,429	2,906,260
Due to pension trust fund	95,804	85,290
Accrued salaries	855,615	722,459
Accrued vacation and sick pay	8,982,354	9,436,585
Claims payable	23,424,687	27,337,513
Capital lease payable	104,445	2,656,227
Other postretirement benefits liability	6,674,710	-
Other liabilities	2,444,165	31,522
	95,224,636	84,763,963
Current liabilities (payable from restricted assets):		
Accrued interest	1,535,591	1,445,671
Bonds payable	12,587,441	11,942,403
Retainers and estimates payable	962,426	1,604,454
Customer deposits	4,964,522	4,923,373
	20,049,980	19,915,901
Total current liabilities	115,274,616	104,679,864
Total liabilities	505,598,129	467,771,954
Total net assets and liabilities	\$ 1,771,520,259	\$ 1,681,544,867

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Sales of water and delinquent fees	\$ 37,795,522	\$ 33,799,760
Sewerage service charges	68,304,547	62,657,636
Plumbing inspection and license fees	542,340	590,242
Other revenue	3,559,801	3,290,683
	<u>110,202,210</u>	<u>100,338,321</u>
Operating Expenses:		
Power and pumping	13,041,954	11,576,640
Treatment	16,280,975	13,518,870
Transmission and distribution	19,832,226	13,845,793
Customer accounts	2,290,092	1,910,612
Customer service	2,670,145	2,265,250
Administration and general	14,899,028	13,714,644
Payroll related	28,259,815	17,914,694
Maintenance of general plant	26,993,626	23,344,667
Depreciation	37,262,536	36,546,373
Amortization	158,019	208,045
Provision for doubtful accounts	12,613,283	22,355,906
Provision for claims	(2,448,965)	2,658,657
	<u>171,852,734</u>	<u>159,860,151</u>
Operating loss	<u>(61,650,524)</u>	<u>(59,521,830)</u>
Non-operating revenues (expenses):		
Two-mill tax	120	3,699
Three-mill tax	10,381,155	9,682,028
Six-mill tax	10,513,559	9,803,052
Nine-mill tax	15,773,070	13,686,249
Other taxes	443,122	634,321
Operating and maintenance grants	1,777,188	35,013,143
Investment income	5,194,038	4,115,003
Hurricane gain	205,995	2,303,397
Interest expense	(2,443,612)	(252,435)
	<u>41,844,635</u>	<u>74,988,457</u>
Income (loss) before capital contributions	(19,805,889)	15,466,627
Capital contributions	71,955,106	42,645,735
Change in net assets	52,149,217	58,112,362
Net assets:		
Beginning of year	<u>1,213,772,913</u>	<u>1,155,660,551</u>
End of year	<u>\$ 1,265,922,130</u>	<u>\$ 1,213,772,913</u>

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, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Cash received from customers	\$ 90,872,549	\$ 71,771,463
Cash payments to suppliers for goods and services	(89,872,636)	(111,667,859)
Cash payments to employees for services	(54,394,472)	(49,076,748)
Other revenue	6,545,067	2,610,487
Net cash used in operating activities	(46,849,492)	(86,362,657)
Cash flows from noncapital financing activities		
Proceeds from property taxes	41,638,050	32,142,013
Proceeds from federal operating and maintenance grants	1,083,116	7,956,631
Net cash provided by noncapital financing activities	42,721,166	40,098,644
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(54,136,105)	(64,347,356)
Proceeds of bond issue	-	24,030,000
Proceeds from Special Community Disaster loan	15,945,181	46,011,566
Proceeds from Debt Service Assistance Fund loan	24,161,049	40,494,073
Bond issuance costs	-	(169,044)
Principal payments on bonds payable	(12,020,000)	(148,435,000)
Interest paid on bonds payable	(13,322,332)	(17,491,816)
Principal payments on capital lease	(2,656,227)	(7,465,953)
Interest paid on capital lease	(43,612)	(252,435)
Capital contributed by developers and federal grants	41,166,867	67,497,986
Net cash used in capital and related financing activities	(905,179)	(60,127,979)
Cash flows from investing activities		
Payments for purchase of investments	(470,107,390)	(276,305,092)
Proceeds from maturities of investments	468,795,632	301,491,457
Investment income	9,244,385	8,798,878
Net cash provided by investing activities	7,932,627	33,985,243
Net decrease in cash	2,899,122	(72,406,749)
Cash at the beginning of the year	15,478,771	87,885,520
Cash at the end of the year	\$ 18,377,893	\$ 15,478,771
Reconciliation of cash and restricted cash (note 2)		
Current assets - cash	\$ 17,933,399	\$ 15,043,720
Restricted assets -cash	444,494	435,051
Total cash	\$ 18,377,893	\$ 15,478,771

(Continued)

SEWERAGE AND WATER BOARD OF NEW ORLEANS

STATEMENTS OF CASH FLOWS

(Continued)

ENTERPRISE FUND

For the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of operating loss to net cash used in operating activities is as follows:		
Operating loss	\$ (61,650,524)	\$ (59,521,830)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	37,262,536	36,546,373
Provision for claims	(2,448,965)	2,658,657
Provision for doubtful accounts	12,613,283	22,355,906
Amortization	158,019	208,045
Change in operating assets and liabilities:		
Increase in customer and other receivable	(15,006,027)	(23,724,513)
Increase in inventory	(2,578,116)	(4,714,984)
Increase (decrease) in prepaid expenses and other receivables	1,769,166	(970,239)
Decrease in net pension asset	663,310	268,704
Increase in accounts payable	(22,408,188)	(54,918,688)
Decrease in accrued salaries, due to pension and accrued vacation and sick pay	(310,561)	(226,706)
Increase in net other postretirement benefits liability	6,674,710	-
Decrease in other liabilities	<u>(1,588,135)</u>	<u>(4,323,382)</u>
Net cash used in operating activities	<u>\$ (46,849,492)</u>	<u>\$ (86,362,657)</u>

Noncash investing, capital and financing activities:

See accompanying notes to financial statements.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
STATEMENTS OF PLAN NET ASSETS
PENSION TRUST FUND
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets:		
Cash	\$ 102,653	\$ 1,104,112
Receivables:		
Investment income	401,192	528,700
Employee contributions receivable	19,603	18,887
Due from other fund	257,562	113,203
Investments	<u>231,011,414</u>	<u>227,419,270</u>
Total assets	<u>231,792,424</u>	<u>229,184,172</u>
Liabilities:		
DROP participants payable	<u>3,966,600</u>	<u>3,247,090</u>
Total liabilities	<u>3,966,600</u>	<u>3,247,090</u>
Plan net assets available for pension benefits	<u>\$ 227,825,824</u>	<u>\$ 225,937,082</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, 2007 and 2006

	2007	2006
Additions:		
Contributions:		
Employee contributions	\$ 1,014,461	\$ 982,418
Employer contributions	3,885,124	3,343,713
City annuity and other transfers in	1,854,239	2,357,005
Total contributions	6,753,824	6,683,136
Investment income:		
Interest income	1,036,269	2,619,209
Dividend income	2,041,471	2,231,004
Net appreciation	5,242,261	24,449,373
	8,320,001	29,299,586
Less investment expense	(372,356)	(218,876)
Net investment income	7,947,645	29,080,710
Total additions	14,701,469	35,763,846
Deductions:		
Benefits	(10,625,533)	(9,905,119)
Employee refunds	(215,746)	(680,769)
Employee contributions to DROP	(1,971,448)	(1,645,967)
Total deductions	(12,812,727)	(12,231,855)
Change in plan net assets	1,888,742	23,531,991
Plan net assets at beginning of year	225,937,082	202,405,091
Plan net assets at end of year	\$ 227,825,824	\$ 225,937,082

See accompanying notes to financial statements.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(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. On March 21, 2007, the Board approved a series of five annual water rate increases beginning with the first increase on November 1, 2007 followed by four additional increases to be implemented on July 1 of each year, 2008 through 2011. The New Orleans City Council approved the annual water rate increases on October 4, 2007.

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 Council Members-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:

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies (continued)

- (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.
- (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.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(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:

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.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies (continued)

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.

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 capital assets are recorded at their estimated fair value at the date of donation.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies (continued)

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.

(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, 2007 and 2006 is \$12,259,000 and \$12,132,000, respectively. The amount included in the statements of net assets as of December 31, 2007 and 2006 is \$8,982,354 and \$9,436,585, 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.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(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 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.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(2) Cash and Investments

The Board's investments and cash consist primarily of investments in direct obligations of the United States Treasury or agencies thereof and deposits with financial institutions.

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Statutes require that the Board's cash and certificates of deposit be covered by federal depository insurance or collateral. At December 31, 2007, the Board's deposits with banks consisted of cash totaling \$22,882,391 and certificates of deposit of \$117,329,767. Of the cash bank balance at December 31, 2007, \$760,331 is covered by federal depository insurance. At December 31, 2006, the bank balances of the Board totaled \$24,649,830 and certificates of deposit of \$103,878,781. The remaining amount of the Board's cash bank balances and all certificates of deposit for 2007 and 2006 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 \$66,192 as of December 31, 2006.

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

	<u>2007</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Enterprise Fund:				
Cash and money market funds	\$ 17,933,399	\$ 444,494	\$ 18,377,893	
Certificates of deposit	-	<u>116,329,710</u>	<u>116,329,710</u>	
		17,933,399	116,774,204	134,707,603
Investments	-	<u>74,408,313</u>	<u>74,408,313</u>	
	\$ <u>17,933,399</u>	\$ <u>191,182,517</u>	\$ <u>209,115,916</u>	
	<u>2006</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Enterprise Fund:				
Cash and money market funds	\$ 15,043,720	\$ 435,051	\$ 15,478,771	
Certificates of deposit	-	<u>103,878,781</u>	<u>103,878,781</u>	
		15,043,720	104,313,832	119,357,552
Investments	-	<u>85,506,335</u>	<u>85,506,335</u>	
	\$ <u>15,043,720</u>	\$ <u>189,820,167</u>	\$ <u>204,863,887</u>	

The composition and carrying value of investments is as follows:

	<u>2007</u>	<u>2006</u>
Enterprise Fund:		
LAMP	\$ 7,807,000	\$ 6,050,000
U.S. Government Securities and Instrumentalities	<u>66,601,313</u>	<u>79,456,335</u>
	\$ <u>74,408,313</u>	\$ <u>85,506,335</u>

SEWERAGE AND WATER BOARD OF NEW ORLEANS

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

(2) Cash and Investments (continued)

	<u>2007</u>	<u>2006</u>
Pension Trust Fund:		
Money Market	\$ 1,637,157	\$ 1,746,802
Corporate Bonds	80,714,328	37,116,933
U.S. Government Securities and Instrumentalities	-	16,920,908
Foreign Obligations	-	350,191
Equities	148,659,929	149,448,099
Pooled Fixed Income Fund	-	21,836,336
	<u>\$ 231,011,414</u>	<u>\$ 227,419,270</u>

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, repurchase agreements, and the Louisiana Asset Management Pool (LAMP). 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.

LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with Louisiana R.S. 33:2955. 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. LAMP is designed to be highly liquid to provide immediate access to participants. 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.

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 104% 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, 2007 and 2006. The value of securities lent at December 31, 2007 and 2006 was \$52,141,791 and \$53,953,367. The market value of the cash collateral at December 31, 2007 and 2006 was \$54,107,811 and \$55,898,006.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

(2) Cash and Investments (continued)

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Board has a formal investment policy that states that *the investment portfolio shall remain sufficiently liquid to meet all operating and capital requirements that may be reasonably anticipated and that maturities of investments are to be structured in concurrent with cash needs to meet anticipated demand.* As of December 31, 2007, the Board's Enterprise Fund investments in U.S. Government Securities and Instrumentalities included U.S. Treasury Bills and Strips totaling \$66,601,313, all of which have a remaining maturity of less than one year.

Credit Risk - State law limits investments in securities issued, or backed by United States Treasury obligations, and U.S. Government instrumentalities, which are federally sponsored. The Board's investment policy does not further limit its investment choices. LAMP is rated AAAM by Standard & Poor's. The Pension Trust Fund's investment policy requires that fixed income investments be investment grade (BBB or higher as rated by Standard & Poor's or Baa or higher as rated by Moody's. Bonds rated below BBB/Baa are not to exceed 15% of the portfolio and non-rated bonds are not to exceed 1% of the portfolio.

(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, 2007 and 2006 was \$26,544,603 and \$25,931,584, respectively; such amounts exclude overtime and standby payroll. Total payroll, including overtime and standby payroll, was \$38,438,336 and \$34,027,902 for the years ended December 31, 2007 and 2006, respectively. At December 31, the PTF membership consisted of:

	<u>2007</u>	<u>2006</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	737	741
Current employees:		
Vested	558	680
Non-vested	<u>247</u>	<u>137</u>
	<u>805</u>	<u>817</u>
Total	<u>1,542</u>	<u>1,558</u>

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.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(3) Defined Benefit Pension Plan (continued)

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.

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, 2007 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.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(3) Defined Benefit Pension Plan (continued)

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

	<u>2007</u>	<u>2006</u>
Annual required contribution	\$ 4,598,587	\$ 4,073,593
Interest on net pension obligation	(241,500)	(260,310)
Adjustments to annual required contribution	<u>476,115</u>	<u>513,197</u>
Annual pension cost	4,833,202	4,326,480
Contributions made	<u>4,169,892</u>	<u>4,057,774</u>
Decrease in net pension asset	663,310	268,706
Net pension asset, beginning of year	<u>3,450,005</u>	<u>3,718,709</u>
Net pension asset, end of year	\$ <u>2,786,695</u>	\$ <u>3,450,005</u>

The net pension asset is being amortized over 6 years as of December 31, 2007, using the level dollar closed method and using the same interest, salary increase and inflation factors as the plan.

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, 2007	\$ 4,833,202	86%	\$ 2,786,695
December 31, 2006	\$ 4,326,480	94%	\$ 3,450,005
December 31, 2005	\$ 5,216,428	82%	\$ 3,718,709
December 31, 2004	\$ 4,837,806	70%	\$ 4,679,641

The actuarially determined contribution requirement for the Board was 17.324% for 2007 and 15.709% for 2006. 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>2007</u>	<u>2006</u>
Employer and other transfers	\$ 5,739,363	\$ 5,700,718
Employee	<u>1,014,461</u>	<u>982,418</u>
Total Contributions	\$ <u>6,753,824</u>	\$ <u>6,683,136</u>

SEWERAGE AND WATER BOARD OF NEW ORLEANS

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

(3) Defined Benefit Pension Plan (continued)

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, 2007 and 2006, 81 and 62 employees, respectively, participated in the plan. The amount of plan assets segregated for these individuals was \$3,966,600 and \$3,247,090 as of December 31, 2007 and 2006, 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

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

	2007			
	Beginning Balance	Additions	Deletions	Ending Balance
Real estate rights, non depreciable	\$ 8,639,525	\$ -	\$ -	\$ 8,639,525
Power and pumping stations - buildings	278,823,495	9,038,882	-	287,862,377
Power and pumping stations - machinery	222,504,768	1,985,000	-	224,489,768
Distribution systems	119,077,196	3,516,334	(781,227)	121,812,303
Sewerage collection	228,195,494	7,669,343	(1,076,593)	234,788,244
Canals and subsurface drainage	280,879,403	923,940	-	281,803,343
Treatment plants	113,375,473	3,371,117	-	116,746,590
Connections and meters	38,527,630	106,561	(112,478)	38,521,713
Power transmission	23,607,668	-	-	23,607,668
General plant	177,252,452	2,936,061	(147,386)	180,041,127
General buildings	7,586,547	-	-	7,586,547
Total property, plant and equipment in service	1,498,469,651	29,547,238	(2,117,684)	1,525,899,205
Construction in progress	458,566,912	94,192,714	(30,225,072)	522,534,554
Total property, plant and equipment	1,957,036,563	123,739,952	(32,342,756)	2,048,433,759
Accumulated depreciation	567,790,683	37,262,535	(2,117,685)	602,935,533
Net	\$ 1,389,245,880	\$ 86,477,417	\$ (30,225,071)	\$ 1,445,498,226

SEWERAGE AND WATER BOARD OF NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS
(Continued)

(4) Property, Plant and Equipment (continued)

	2006			
	Beginning Balance	Additions	Deletions	Ending Balance
Real estate rights, non depreciable	\$ 8,637,623	\$ 1,902	\$ -	\$ 8,639,525
Power and pumping stations - buildings	272,440,061	6,383,434	-	278,823,495
Power and pumping stations - machinery	222,309,357	195,411	-	222,504,768
Distribution systems	119,781,310	476,145	(1,180,259)	119,077,196
Sewerage collection	221,151,432	7,961,848	(917,786)	228,195,494
Canals and subsurface drainage	280,333,767	545,636	-	280,879,403
Treatment plants	109,084,206	4,291,267	-	113,375,473
Connections and meters	37,944,578	754,391	(171,339)	38,527,630
Power transmission	23,683,427	-	(75,759)	23,607,668
General plant	175,806,760	1,705,306	(259,614)	177,252,452
General buildings	7,586,547	-	-	7,586,547
Total property, plant and equipment in service	1,478,759,068	22,315,340	(2,604,757)	1,498,469,651
Construction in progress	372,388,828	124,473,112	(38,295,028)	458,566,912
Total property, plant and equipment	1,851,147,896	146,788,452	(40,899,785)	1,957,036,563
Accumulated depreciation	533,849,067	36,546,373	(2,604,757)	567,790,683
Net	\$ 1,317,298,829	\$ 110,242,079	\$ (38,295,028)	\$ 1,389,245,880

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

	2007	2006
Interest income	\$ 3,979,717	\$ 5,001,485
Interest expense	(13,222,352)	(15,838,645)
Net interest capitalized	\$ (9,242,635)	\$ (10,837,160)

(5) Customer Receivables

Customer receivables as of December 31 consist of the following:

	Customer Accounts	Allowance for Doubtful Accounts	Net
2007 Water	\$ 24,065,882	\$ 16,721,384	\$ 7,344,498
Sewer	34,237,243	25,475,244	8,761,999
	\$ 58,303,125	\$ 42,196,628	\$ 16,106,497
2006 Water	\$ 19,229,415	\$ 13,494,623	\$ 5,734,792
Sewer	26,597,640	18,618,679	7,978,961
	\$ 45,827,055	\$ 32,113,302	\$ 13,713,753

SEWERAGE AND WATER BOARD OF NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS
(Continued)

(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, 2007 and 2006, \$297,908 and \$459,494, respectively, was due from the City of New Orleans.

(7) Changes in Long-term Obligations

a. Bonds Payable

Bonds payable consisted of the following as of December 31:

	Principal Balances	
	2007	2006
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	\$ 19,175,000	\$ 20,590,000
4.125% to 6.125% water revenue bonds, series 1998 (initial average interest cost 4.82%), due in annual principal installments ranging from \$625,000 to \$1,220,000; final payment due December 1, 2018	10,770,000	11,495,000
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	16,825,000	17,960,000
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	6,650,000	7,100,000
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	20,680,000	21,715,000
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	15,755,000	16,555,000
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	\$ 25,795,000	\$ 27,100,000

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(7) Changes in Long-term Obligations

a. Bonds Payable (continued)

	<u>Principal Balances</u>	
	<u>2007</u>	<u>2006</u>
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.	\$ 47,875,000	\$ 49,900,000
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.	29,920,000	31,015,000
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.	17,185,000	17,805,000
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.	4,715,000	4,935,000
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.	29,515,000	30,710,000
5.02% sewerage service refunding bond anticipation notes, series 2006; due in one principal installment of \$24,030,000 on July 15, 2009.	<u>24,030,000</u>	<u>24,030,000</u>
	268,890,000	280,910,000
Plus bond premiums	<u>1,852,968</u>	<u>2,042,868</u>
Total	270,742,968	282,952,868
Less current maturities	<u>12,587,441</u>	<u>11,942,403</u>
Bond payable, long-term	<u>\$ 258,155,527</u>	<u>\$ 271,010,465</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>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 280,910,000	\$ 405,315,000
Issuances	-	24,030,000
Payments	<u>(12,020,000)</u>	<u>(148,435,000)</u>
Balance, end of year	\$ <u>268,890,000</u>	\$ <u>280,910,000</u>

The annual requirements to amortize all bonds payable as of December 31, 2007, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	36,665,000	12,863,070	49,528,070
2009	13,270,000	11,056,512	24,326,512
2010	13,925,000	10,449,008	24,374,008
2011	14,630,000	9,807,092	24,437,092
2012	15,355,000	9,110,507	24,465,507
2013-2017	89,135,000	33,223,658	122,358,658
2018-2022	80,760,000	10,730,289	91,490,289
2023-2024	<u>5,150,000</u>	<u>225,204</u>	<u>5,375,204</u>
Total	\$ <u>268,890,000</u>	\$ <u>97,465,340</u>	\$ <u>365,355,340</u>

The amount of revenue bonds and tax bonds payable as of December 31, 2007, are as follows:

<u>Year</u>	<u>Revenue Bonds</u>	<u>Tax Bonds</u>	<u>Total</u>
2008	35,540,000	1,125,000	36,665,000
2009	12,085,000	1,185,000	13,270,000
2010	12,690,000	1,235,000	13,925,000
2011	13,330,000	1,300,000	14,630,000
2012	13,995,000	1,360,000	15,355,000
2013-2017	81,335,000	7,800,000	89,135,000
2018-2022	70,930,000	9,830,000	80,760,000
2023-2024	<u>5,150,000</u>	<u>-</u>	<u>5,150,000</u>
Total	\$ <u>245,055,000</u>	\$ <u>23,835,000</u>	\$ <u>268,890,000</u>

SEWERAGE AND WATER BOARD OF NEW ORLEANS

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

(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 \$6,647,720 and \$5,446,578 at December 31, 2007 and 2006, respectively; the accumulated balance at December 31, 2007 and 2006 was \$4,127,745 and \$2,943,232 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 (7) c. 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 at December 31, 2007 and 2006; the accumulated balance at December 31, 2007 and 2006 was \$22,254,068.

The net operating revenues of both the Sewerage Department and the Water Department of the Board for the year ended December 31, 2007 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 for the Sewerage Department at December 31, 2007.

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

SEWERAGE AND WATER BOARD OF NEW ORLEANS

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

(7) Changes in Long-term Obligations

b. Special Community Disaster Loan Payable

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. The Board made draw downs totaling \$61,956,747 as of December 31, 2007. The loan is for a term of five years, which may be extended, and shall bear interest at the latest five-year Treasury rate at the time of the closing date of the loan, plus one percent. Simple interest accrues from the date of each disbursement. Payments of principal and interest are deferred until the end of the five year period. As of December 31, 2007, approximately \$2.4 million of interest was accrued.

Interest rates and maturity dates for the draw downs are as follows:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>
January 23, 2011	2.66%	\$ 22,298,689
June 21, 2011	3.12%	6,013,905
August 27, 2011	2.93%	33,644,153
		<u>\$ 61,956,747</u>

Operating revenues are pledged as security for the loan. Debt service requirements relating to the loan due in 2011 include \$61,956,747 of principal and \$8,475,957 of interest.

c. Loan Program

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. As of December 31, 2007, the Board has drawn down \$64,655,122 on this agreement.

Debt service requirements relating to the bond are as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 3,078,373	\$ 2,999,998	\$ 6,078,371
2013-2017	17,671,662	12,720,190	30,391,852
2018-2022	22,170,018	8,221,834	30,391,852
2023-2027	21,735,069	2,578,411	24,313,480
	<u>\$ 64,655,122</u>	<u>\$ 26,520,433</u>	<u>\$ 91,175,555</u>

(7) Changes in Long-term Obligations

SEWERAGE AND WATER BOARD OF NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS
(Continued)

d. Capital Lease

During October 2005, the Board entered into a capital lease for the replacement of vehicles damaged during Hurricane Katrina totaling \$943,373. Additional vehicles totaling \$8,762,253 were purchased during 2006 under the same terms. Payments on these capital leases under separate payment schedules were based on the date of delivery beginning in October 2005 and ending March 2007. Lease terms include monthly payments of principal and interest at an interest rate of 2.68%. This capital lease was secured by a security interest in the vehicles.

During August 2006, the Board entered into a capital lease for the replacement of vehicles damaged during Hurricane Katrina totaling \$658,200 with payments beginning in August 2006 and ending March 2008. Lease terms include monthly payments of principal and interest at an interest rate of 8.08%. This capital lease is secured by a security interest in the vehicles. As of December 31, 2007, future minimum lease payments for the capital lease of \$105,854 are scheduled to be paid during 2008.

The vehicles subject to the capital lease are included in property plant and equipment - general plant with a net book value of \$8,590,508.

(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.

Additionally, amounts included in accounts payable due to the city were \$500,959 and \$65,722 at December 31, 2007 and December 31, 2006, 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 2007 was \$2,134,989,576. The combined tax rate dedicated for the Board for the years ended December 31, 2007 and 2006 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).

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS
(Continued)

(10) Commitments

a. Capital Improvements

At December 31, 2007, the Board's budget for its five year capital improvements program totaled \$2,275,287,000 including \$430,167,000 for water, \$889,070,000 for sewerage and \$956,050,000 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, 2007, the Board has committed or appropriated \$82,479,722 in investments for use in future capital projects and has \$70,699,720 of bond proceeds remaining for construction. The capital project investments are included in restricted assets.

The capital improvements budget for 2008 is \$427,870,000, including \$132,030,000 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, 2007 include the following:

Hurricane Katrina related Repairs and Replacement
Southeast Louisiana Flood Control Program
Sewer System Sanitation Evaluation and Rehabilitation Program
Drainage Pumping Stations and Canals
Eastbank Sewer Treatment Plant
Westbank Sewer Treatment Plant

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 2007 and 2006 amounted to (\$4,168,677) and \$1,187,809, respectively.

Worker's compensation expense provision for 2007 and 2006 amounted to \$1,719,712 and \$1,470,850, respectively.

The hospitalization self-insurance benefits are administered by Blue Cross of Louisiana. The Board's expense provision in excess of employee contributions for 2007 and 2006 was approximately \$13,015,000 and \$10,600,000, respectively, and is included in payroll related expenses.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS
(Continued)

(10) Commitments (continued)

b. Self-insurance (continued)

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>
2007	\$ 32,809,054	10,840,357	(14,668,607)	28,980,804
2006	\$ 33,542,147	13,601,729	(14,334,822)	32,809,054

The composition of claims payable is as follows:

	<u>2007</u>	<u>2006</u>
Short-term:		
Workers' Compensation	\$ 901,949	\$ 815,123
Health Insurance	3,047,836	2,691,023
General Liability	19,474,902	23,831,367
Total short-term	<u>23,424,687</u>	<u>27,337,513</u>
Long-term:		
Workers' Compensation	5,256,117	5,171,541
General Liability	300,000	300,000
Total long-term	<u>5,556,117</u>	<u>5,471,541</u>
Total	<u>\$ 28,980,804</u>	<u>\$ 32,809,054</u>

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 of the commitment at December 31, 2007 and 2006. 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.

(10) Commitments (continued)

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

d. Postemployment Healthcare Benefits

Plan Description - The Sewerage and Water Board of New Orleans participates in a partially self-funded health insurance program.

The Board extends post employment medical insurance benefits to qualifying employees. Eligibility of retirement is achieved upon completion of thirty (30) years with the Board (any age), ten (10) years of service (if 62 or older), five (5) years of service (if age 65 or older), age seventy (70) regardless of service, or, if age plus service equals at least 80. Currently, the Board provides post employment medical benefits to 582 retired employees.

Contribution Rates - Employees do not contribute to their post employment benefits costs until they become retirees and begin receiving those benefits.

Fund Policy - Until 2007, the Board recognized the cost of providing post-employment medical benefits (the Board's portion of the retiree medical benefit premiums) as an expense when the benefit premiums were due and thus financed the cost of the post-employment benefits on a pay-as-you-go basis. In 2007, The Board's portion of health care funding cost for retired employees totaled \$6,143,654.

Effective with the Fiscal Year beginning January 1, 2007, the Board implemented Government Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions* (GASB 45).

Annual Required Contribution - The Board's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The ARC is equal to the normal cost plus an amount necessary to amortize the Unfunded Actuarial Liability (UAL) over a period of thirty (30) years. A level dollar, closed amortization period has been used. The total ARC for the fiscal year beginning January 1, 2007 is \$12,818,364, as set forth below:

Normal Cost	\$	3,191,001
30-year UAL amortization amount		<u>9,627,363</u>
Annual required contribution (ARC)	\$	12,818,364

Net Post-employment Benefit Obligation (Asset) - The table below shows the Board's Net Other Post-employment Benefit (OPEB) Obligation (Asset) for fiscal year ending December 31, 2007:

Beginning Net OPEB Obligation (Asset) 1/1/2007	\$	-
Annual required contribution		12,818,364
Interest on Net OPEB Obligation (Asset)		-
ARC Adjustment		<u>-</u>
OPEB Cost		12,818,364
Contribution		-
Current year retiree premium		<u>(6,143,654)</u>
Change in Net OPEB Obligation		6,674,710
Ending Net OPEB Obligation (Asset) 12/31/2007	\$	<u>6,674,710</u>

(10) Commitments (continued)

SEWERAGE AND WATER BOARD OF NEW ORLEANS

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

e. Postemployment Healthcare Benefits (continued)

The following table shows the Board's annual post employment benefits (PEB) cost, percentage of the cost contributed, and the net unfunded post employment benefits (PEB) liability (asset):

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net PEB Liability (Asset)</u>
December 31, 2007	\$12,818,364	47.93%	\$6,674,710

Funded Status and Funding Progress - In the fiscal year ending December 31, 2007, The Board made no contributions to its post employment benefits plan. The plan was not funded at all, has no assets, and hence has a funded ratio of zero. As of January 1, 2007, the first and most recent actuarial valuation, the Actuarial Accrued Liability (AAL) was \$147,995,856, which is defined as that portion, as determined by a particular actuarial cost method (the Board uses the Unit Credit Cost Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost. Since the plan was not funded in fiscal year 2007, the entire actuarial accrued liability of \$147,995,856 was unfunded.

Actuarial Methods and Assumptions - Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial valuation for post employment benefits includes estimates and assumptions regarding (1) turnover rate; (2) retirement rate; (3) health care cost trend rate; (4) mortality rate; (5) discount rate (investment return assumption); and (6) the period to which the costs apply (past, current, or future years of service by employees). Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the Board and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the Board and its plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the Board and plan members in the future. Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets.

Actuarial Cost Method - The ARC is determined using the Unit Credit Cost Method. The employer portion of the cost for retiree medical care in each future year is determined by projecting the current cost levels using the healthcare cost trend rate and discounting this projected amount to the valuation date using the other described pertinent actuarial assumptions, including the investment return assumption (discount rate), mortality, and turnover.

Actuarial Value of Plan Assets - Since this is the first actuarial valuation, there are not any assets. It is anticipated that in future valuations a smoothed market value consistent with Actuarial Standards Board ASOP 6, as provided in paragraph number 125 of GASB Statement 45.

(10) Commitments (continued)

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

f. Postemployment Healthcare Benefits (continued)

Turnover Rate - An age-related turnover scale based on actual experience has been used. The rates, when applied to the active employee census, produce a composite average annual turnover of approximately 7%. In addition to age related turnover, it has additionally been assumed that 10% of future eligible retirees will decline coverage upon retirement.

Post employment Benefit Plan Eligibility Requirements - It is assumed that entitlement to benefits will commence five (5) years after earliest eligibility for retirement. Eligibility for retirement has been assumed to be the any of: (1), attainment of age 70 regardless of service, (2), attainment of age 62 with at least ten (10) years of service, (3), attainment of age 65 with at least five (5) years of service, (4), completion of thirty (30) years of service at any age, or (5) if age plus service equals at least 80.

Investment Return Assumption (Discount Rate) - GASB Statement 45 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits (that is, for a plan which is funded). Based on the assumption that the ARC will not be funded, a 5% annual investment return has been used in this valuation. This is a conservative estimate of the return on the sponsoring employer's general investments as provided in paragraph 121 of GASB Statement No. 45.

Health Care Cost Trend Rate - In the absence of readily available cost trend data from the Office of Group Benefits, the expected rate of increase in health care insurance premiums is based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services as published in *National Health Care Expenditures Projections: 2003 to 2013*, Table 3: National Health Expenditures Aggregate and Per Capita Amounts, Percent Distribution and Average Annual Percent Change by Source of Funds: Selected Calendar Years 1990-2013, released in January 2004, by the Health Care Financial Administration. "State and Local" rates for 2007 through 2013 from this report we used, with rates beyond 2013 graduating down to an ultimate annual rate of 5.0% for 2018 and later, as set forth below:

2008	8.0%
2009	8.0%
2010	8.0%
2011	8.0%
2012	7.9%
2013	7.8%
2014	7.7%
2015	7.6%
2016	6.7%
2017	6.0%
2018 and later	5.0%

(10) Commitments (continued)

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

g. Postemployment Healthcare Benefits (continued)

Mortality Rate - The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rate and 50% of the unloaded female mortality rates, was used. This is the mortality table which the Internal Revenue Service requires to be used in determining the value of accrued benefits in defined benefit pension plans.

Method of Determining Value of Benefits - The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. The current premium schedules for active and retired are "unblended" rates, as required by GASB 45.

(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.

(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.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(13) Segment Information (continued)

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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(amounts in thousands)			
Assets:				
Property, plant and equipment	\$ 273,885	\$ 266,754	\$ 593,496	\$ 548,015
Restricted assets	26,567	25,179	74,841	83,077
Current	21,302	33,566	77,678	34,465
Other assets	1,627	2,047	1,854	2,239
Total assets	\$ 323,381	\$ 327,546	\$ 747,869	\$ 667,796
Net assets:				
Invested in capital assets, net of related debt	\$ 239,784	\$ 227,822	\$ 437,248	\$ 390,682
Restricted	(61,603)	(22,741)	6,833	(9,071)
Total net assets	178,181	205,081	444,081	381,611
Liabilities:				
Current	28,401	23,343	39,858	31,051
Current liabilities payable from restricted assets	7,247	7,189	11,421	11,159
Noncurrent liabilities	109,552	91,933	252,509	243,975
Total liabilities	145,200	122,465	303,788	286,185
Total liabilities and net assets	\$ 323,381	\$ 327,546	\$ 747,869	\$ 667,796

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	
	2007	2006	2007	2006
	(amounts in thousands)			
Service charges, pledged against bonds	\$ 39,981	\$ 36,378	\$ 68,843	\$ 63,011
Depreciation expense	(12,781)	(12,715)	(11,725)	(11,519)
Other operating expenses	(63,375)	(51,000)	(46,992)	(46,956)
Operating income	(36,175)	(27,337)	10,126	4,536
Nonoperating revenues (expenses):				
Investment earnings	-	-	1,133	896
Other	(1,389)	7,107	942	26,046
Capital contributions	10,665	33,194	50,269	2,660
Change in net assets	(26,899)	12,964	62,470	34,138
Beginning net assets	205,080	192,116	381,611	347,473
Ending net assets	\$ 178,181	\$ 205,080	\$ 444,081	\$ 381,611

Condensed Statements of Cash Flows

	Water		Sewer	
	2007	2006	2007	2006
	(amounts in thousands)			
Net cash provided by (used in):				
Operating activities	\$ (23,157)	\$ (39,154)	\$ 1,027	\$ (5,470)
Noncapital financing activities	197	282	246	352
Capital and related financing activities	8,854	39,842	(2,894)	(94,180)
Investing activities	(543)	3,038	12,113	20,022
Net increase (decrease)	(14,649)	4,008	10,492	(79,276)
Cash and cash equivalents:				
Beginning of year	2,740	(1,268)	9,680	88,956
End of year	\$ (11,909)	\$ 2,740	\$ 20,172	\$ 9,680

SEWERAGE AND WATER BOARD OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(Continued)

(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. Insurance proceeds of \$2,346,397 were received in 2007 and are included in miscellaneous accounts receivable as of December 31, 2006. No additional insurance proceeds are expected to be recovered.

As of December 31, 2007 and 2006, the Board has received \$113,635,454 and \$71,969,709, respectively, of cash reimbursements from the Federal Emergency Management Agency (FEMA). Included in accounts receivable as of December 31, 2007 and 2006 are \$72,165,526 and 40,789,643, respectively, of reimbursements due from FEMA. Eligible FEMA grants totaling in excess of \$209 million are in various stages of the approval process and include amounts for system repairs, building repairs, vehicle and equipment repairs and replacements, temporary power, supplies and other costs.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
Required Supplementary Information Under GASB Statement No. 25
SCHEDULE OF FUNDING PROGRESS
For the years ended December 31, 2007 and 2006

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
2007	\$ 223,583,589	245,202,189	\$ 21,618,600	91.18%	27	81.44%
2006	217,274,416	235,664,407	18,389,991	92.20%	26	70.92%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contribution
2007	\$ 4,598,587	\$ 3,885,124	84.49%
2006	4,073,502	3,343,713	82.08%
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%

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, 2007 and 2006

	Water System			Sewerage System			Drainage System			Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	
ASSETS											
Property, plant and equipment	\$ 509,991,021	\$ 490,937,879	\$ 760,862,739	\$ 704,769,681	\$ 777,579,999	\$ 761,329,003	\$ 2,048,433,759	\$ 1,957,036,563			
Less accumulated depreciation	236,106,494	224,183,761	167,367,160	156,754,092	199,461,879	186,852,830	602,935,533	567,790,683			
	273,884,527	266,754,118	593,495,579	548,015,589	578,118,120	574,476,173	1,445,498,226	1,389,245,880			
Restricted assets:											
Capital projects	7,910,478	8,851,627	2,107,676	2,038,581	72,461,568	62,549,665	82,479,722	73,439,873			
Construction funds	6,999,912	5,092,717	49,643,615	58,897,441	14,056,193	15,832,280	70,699,720	79,822,438			
Debt service reserve	3,928,380	3,928,380	18,325,688	18,325,688	-	-	22,254,068	22,254,068			
Customer deposits	4,964,522	4,923,373	-	-	-	-	4,964,522	4,923,373			
Health insurance reserve	1,613,463	1,539,524	1,613,463	1,539,524	1,613,463	1,539,524	4,840,389	4,618,572			
Debt service	1,056,056	749,065	3,071,689	2,196,427	1,604,351	1,604,351	5,732,096	4,549,843			
Other	94,000	94,000	79,000	79,000	39,000	39,000	212,000	212,000			
	26,566,811	25,178,686	74,841,131	83,076,661	89,774,575	81,564,820	191,182,517	189,820,167			
Current assets:											
Cash	(12,152,551)	2,590,476	19,840,485	9,430,622	10,245,465	3,022,622	17,933,399	15,043,720			
Accounts receivable:											
Customers, net of allowance	7,344,498	5,734,792	8,761,999	7,978,961	4,549,506	9,076,530	16,106,497	13,713,753			
Taxes	-	-	-	-	966,179	1,019,847	4,549,506	9,076,530			
Interest	106,977	116,049	68,159	76,049	11,031,595	7,409,493	1,141,315	1,211,945			
Grants	32,421,003	27,594,210	28,830,525	5,797,109	1,340,063	2,069,190	72,283,123	40,800,812			
Miscellaneous	3,024,899	3,743,441	285,328	1,074,590	34,000	34,000	4,650,290	6,887,221			
Due from City of New Orleans, current	96,000	96,000	70,000	70,000	2,370,405	5,906,713	200,000	200,000			
Due from (to) other internal departments/other fu	(19,047,488)	(13,518,204)	16,967,861	7,902,269	872,541	643,416	290,778	290,778			
Inventory of supplies	8,913,274	6,989,800	2,390,915	1,965,398	264,503	97,434	12,176,730	9,598,614			
Prepaid expenses	595,133	219,227	462,881	170,510	31,674,257	29,279,245	1,322,517	487,171			
Total current assets	21,301,745	33,565,791	77,678,153	34,465,508	68,744,257	68,744,257	130,654,155	97,310,544			
Due from City of New Orleans, less current portion	46,996	124,557	34,268	90,823	16,644	44,114	97,908	259,494			
Other assets:											
Bond issue costs	192,185	209,223	965,459	1,094,822	91,799	103,417	1,249,443	1,407,462			
Deposits	22,950	22,950	17,965	17,965	10,400	10,400	51,315	51,315			
Pension Asset	1,365,480	1,690,502	836,009	1,035,002	583,206	724,501	2,786,695	3,450,005			
	1,580,615	1,922,675	1,819,433	2,147,789	687,405	838,318	4,087,453	4,908,782			
	\$ 323,380,694	\$ 327,545,827	\$ 747,868,564	\$ 667,796,370	\$ 700,271,001	\$ 686,202,670	\$ 1,771,520,259	\$ 1,681,544,867			

(Continued)

SEWERAGE AND WATER BOARD OF NEW ORLEANS
 SCHEDULE OF NET ASSETS BY DEPARTMENT, CONTINUED
 ENTERPRISE FUND
 As of December 31, 2007 and 2006

	Water System		Sewerage System		Drainage System		Total
	2007	2006	2007	2006	2007	2006	
NET ASSETS AND LIABILITIES							
Net assets:							
Invested in capital assets - net of related debt	\$ 239,784,130	\$ 227,821,745	\$ 437,247,979	\$ 390,681,714	\$ 568,318,424	\$ 564,851,319	\$ 1,183,354,778
Restricted for:							
Debt service	4,984,436	4,677,445	21,397,377	20,522,115	1,604,351	1,604,351	26,803,911
Capital Projects	(66,587,207)	(27,418,855)	(14,564,387)	(29,592,755)	73,737,027	60,625,884	3,614,224
Total net assets	178,181,359	205,080,335	444,080,969	381,611,074	643,659,802	627,081,504	1,213,772,913
Long-term liabilities:							
Claims payable	1,902,039	2,023,847	1,902,039	1,723,847	1,752,039	1,723,847	5,471,541
Bonds payable (net of current maturities)	39,138,531	41,100,821	196,306,996	206,074,644	22,710,000	23,835,000	271,010,465
Special Community Disaster loan payable	61,956,747	46,011,566	-	-	-	-	46,011,566
Debt Service Assistance Fund loan payable	6,553,007	2,754,940	54,299,888	36,134,782	3,800,227	1,604,351	40,494,073
Capital leases payable (net of current maturities)	-	41,778	-	41,778	-	20,889	104,445
	109,557,324	91,932,952	252,508,923	243,975,051	28,262,266	27,184,087	363,092,090
Current liabilities (payable from current assets):							
Accounts payable	11,411,477	10,388,858	28,983,758	20,715,754	9,747,259	10,337,418	41,442,070
Due to City of New Orleans	26,933	146,037	-	-	-	-	146,037
Retainers and estimates payable	937,131	920,063	1,151,119	1,086,098	385,179	900,099	2,473,429
Due to other fund	46,944	41,792	22,035	19,617	26,825	23,881	85,290
Accrued salaries	424,163	355,272	245,936	208,136	185,516	159,051	722,459
Accrued vacation and sick pay	4,502,793	4,845,479	2,842,011	2,890,152	1,637,550	1,700,954	8,982,354
Claims payable	5,279,986	5,548,497	4,583,788	5,072,162	13,560,913	16,716,884	23,424,687
Capital lease payable	41,778	1,062,491	41,778	1,062,491	20,889	531,245	2,656,227
Other postretirement benefits liability	3,270,608	-	2,002,413	-	1,401,689	-	6,674,710
Other liabilities	2,459,353	35,212	(14,712)	(3,214)	(476)	(476)	2,444,165
	28,401,166	23,343,741	39,858,126	31,051,196	28,963,344	30,369,026	84,763,963
Current liabilities (payable from restricted assets):							
Accrued interest	159,761	216,875	1,286,682	1,130,571	89,148	98,225	1,445,671
Bonds payable	1,520,000	1,820,000	9,542,441	9,052,403	1,125,000	1,070,000	11,942,403
Retainers and estimates payable	201,562	228,551	591,423	976,075	169,441	399,828	1,604,454
Customer deposits	4,964,522	4,923,373	-	-	-	-	4,923,373
	7,245,845	7,188,799	11,420,546	11,159,049	1,383,589	1,568,043	19,915,901
Total current liabilities	35,647,011	30,532,540	51,278,672	42,210,245	28,348,933	31,937,079	104,679,864
Total liabilities	145,199,335	122,465,492	303,787,595	286,183,296	56,611,199	59,121,166	467,771,954
Total fund equity and liabilities	\$ 323,380,694	\$ 327,545,827	\$ 747,868,564	\$ 667,796,370	\$ 700,271,001	\$ 686,202,670	\$ 1,681,544,867

See independent auditors' report.

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, 2007 and 2006

	Water System		Sewerage System		Drainage System		Total
	2007	2006	2007	2006	2007	2006	
Operating revenues:							
Sales of water and delinquent fees	\$ 37,795,522	\$ 33,799,760	\$ -	\$ -	\$ -	\$ -	\$ 37,795,522
Sewerage service charges	-	-	68,304,547	62,657,636	-	-	68,304,547
Plumbing inspection and license fees	271,170	295,121	271,170	295,121	-	-	542,340
Other revenues	1,914,530	2,283,384	266,798	58,556	1,378,453	948,743	3,559,801
Total revenues	39,981,242	36,378,265	68,842,515	63,011,313	1,378,453	948,743	110,202,210
Operating Expenses:							
Power and pumping	4,425,750	4,890,021	2,930,284	1,880,042	5,685,920	4,806,577	13,041,954
Treatment	6,353,820	5,449,074	9,927,155	8,069,796	-	-	16,280,975
Transmission and distribution	10,964,882	7,560,770	6,671,617	4,764,561	2,193,727	1,520,462	19,832,226
Customer accounts	1,145,048	955,307	1,145,044	955,305	-	-	2,290,092
Customer service	1,335,074	1,132,626	1,335,071	1,132,624	-	-	2,670,145
Administration and general	6,141,119	5,206,201	5,145,038	5,404,288	5,612,871	3,104,155	14,899,028
Payroll related	13,821,762	8,978,284	8,560,785	5,399,618	5,877,268	3,536,792	28,259,815
Maintenance of general plant	14,569,374	7,612,754	3,054,010	5,431,645	9,370,242	10,300,268	26,993,626
Depreciation	12,780,829	12,714,561	11,725,271	11,518,562	12,756,436	12,313,150	37,262,536
Amortization	17,038	17,038	129,362	179,388	11,619	11,619	158,019
Provision for doubtful accounts	4,650,017	9,013,429	2,963,266	13,342,477	-	-	22,355,906
Provision for claims	(48,055)	185,283	130,020	397,178	(2,530,930)	2,076,185	(2,448,965)
Total operating expenses	76,136,658	63,715,448	58,716,923	58,475,495	36,979,153	37,669,208	171,852,734
Operating income (loss)	(36,175,416)	(27,337,183)	10,125,592	4,535,818	(35,600,700)	(36,720,465)	(61,630,524)
Non-operating revenues (expenses):							
Two-mill tax	-	-	-	-	120	3,699	3,699
Three-mill tax	-	-	-	-	10,381,155	9,682,028	10,381,155
Six-mill tax	-	-	-	-	10,513,559	9,803,052	10,513,559
Nine-mill tax	-	-	-	-	15,773,070	13,686,249	15,773,070
Other taxes	197,189	282,273	245,933	352,048	-	-	443,122
Operating and maintenance grants	762,885	5,756,194	644,562	25,044,125	369,741	4,212,824	1,777,188
Interest income	-	-	1,133,320	896,075	4,060,718	3,218,928	5,194,038
Hurricane gain	68,665	1,169,679	68,665	750,489	68,665	383,229	205,995
Interest expense	(2,437,445)	(100,974)	(17,485)	(100,974)	(8,722)	(50,487)	(2,443,612)
Total non-operating revenues (expenses)	(1,388,706)	7,107,172	2,075,035	26,941,763	41,158,306	40,939,522	41,844,635
Income before capital contributions	(37,564,122)	(20,230,011)	12,200,627	31,477,581	5,557,606	4,219,057	(19,805,889)
Capital contributions	10,665,146	33,193,913	50,269,268	2,660,297	11,020,692	6,791,525	71,955,106
Change in net assets	(26,898,976)	12,963,902	62,469,895	34,137,878	16,578,298	11,010,582	57,149,217
Net assets, beginning of year	205,080,335	192,116,433	381,611,074	347,473,196	627,081,504	616,070,922	1,213,772,913
Net assets, end of year	178,181,359	205,080,335	444,080,969	381,611,074	643,659,802	627,081,504	1,265,922,130
See independent auditors' report.							

SEWERAGE AND WATER BOARD OF NEW ORLEANS
SCHEDULE OF PROPERTY, PLANT, AND EQUIPMENT BY DEPARTMENT
For Year Ended December 31, 2007

	Water	Sewer	Drainage	Total
Real estate rights, non depreciable	\$ 2,898,138	\$ 930,439	\$ 4,810,948	\$ 8,639,525
Power and pumping stations - buildings	56,724,971	29,023,434	202,113,972	287,862,377
Power and pumping stations - machinery	111,306,128	28,330,218	84,853,422	224,489,768
Distribution systems	121,812,303	-	-	121,812,303
Sewerage collection	-	234,788,244	-	234,788,244
Canals and subsurface drainage	-	-	281,803,343	281,803,343
Treatment plants	-	116,746,590	-	116,746,590
Connections and meters	28,251,490	10,270,223	-	38,521,713
Power transmission	7,479,863	5,006,170	11,121,635	23,607,668
General plant	80,185,099	56,619,873	43,236,155	180,041,127
General buildings	2,525,548	1,093,325	3,967,674	7,586,547
Total property, plant and equipment in service	411,183,540	482,808,516	631,907,149	1,525,899,205
Construction in progress	98,807,481	278,054,223	145,672,850	522,534,554
Total property, plant and equipment	509,991,021	760,862,739	777,579,999	2,048,433,759
Accumulated depreciation	236,106,494	167,367,160	199,461,879	602,935,533
Net property, plant and equipment	\$ 273,884,527	\$ 593,495,579	\$ 578,118,120	\$ 1,445,498,226
	2006			
	Water	Sewer	Drainage	Total
Real estate rights, non depreciable	\$ 2,898,138	\$ 930,439	\$ 4,810,948	\$ 8,639,525
Power and pumping stations - buildings	55,902,946	28,782,664	194,137,885	278,823,495
Power and pumping stations - machinery	111,306,128	28,330,218	82,868,422	222,504,768
Distribution systems	119,077,196	-	-	119,077,196
Sewerage collection	-	228,195,494	-	228,195,494
Canals and subsurface drainage	-	-	280,879,403	280,879,403
Treatment plants	-	113,375,473	-	113,375,473
Connections and meters	28,221,798	10,305,832	-	38,527,630
Power transmission	7,479,863	5,006,170	11,121,635	23,607,668
General plant	80,115,985	56,876,266	40,260,201	177,252,452
General buildings	2,525,548	1,093,325	3,967,674	7,586,547
Total property, plant and equipment in service	407,527,602	472,895,881	618,046,168	1,498,469,651
Construction in progress	83,410,277	231,873,800	143,282,835	458,566,912
Total property, plant and equipment	490,937,879	704,769,681	761,329,003	1,957,036,563
Accumulated depreciation	224,183,761	156,754,092	186,852,830	567,790,683
Net property, plant and equipment	\$ 266,754,118	\$ 548,015,589	\$ 574,476,173	\$ 1,389,245,880

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SEWERAGE AND WATER BOARD OF NEW ORLEANS
 SCHEDULE OF BONDS PAYABLE
 DECEMBER 31, 2007

	Annual Interest Rates	Interest Payment Dates	Issue Date	Final Maturity Date	Outstanding as of December 31, 2006	New Debt in 2007	Payments in 2007	Outstanding as of December 31, 2007
Drainage System Bonds, 1998 (9-Mills)	4.84%	(6/1;12/1)	12/01/98	12/01/18	\$ 7,100,000	\$ -	\$ 450,000	\$ 6,650,000
Drainage System Bonds, 2002 (9-Mills)	4.46%	(6/1;12/1)	10/01/02	12/01/22	17,805,000	-	620,000	17,185,000
					24,905,000	-	1,070,000	23,835,000
Sewer Revenue Bonds, 1997	5.36%	(6/1;12/1)	06/01/97	06/01/17	20,590,000	-	1,415,000	19,175,000
Sewer Revenue Bonds, 1998	4.82%	(6/1;12/1)	12/01/98	06/01/18	17,960,000	-	1,135,000	16,825,000
Sewer Revenue Bonds, 2000	5.48%	(6/1;12/1)	05/01/00	06/01/20	21,715,000	-	1,035,000	20,680,000
Sewer Revenue Bonds, 2000-B	5.43%	(6/1;12/1)	11/01/00	06/01/20	16,555,000	-	800,000	15,755,000
Sewer Revenue Bonds, 2001	5.02%	(6/1;12/1)	12/01/01	06/01/21	27,100,000	-	1,305,000	25,795,000
Sewer Revenue Bonds, 2002	4.36%	(6/1;12/1)	12/01/02	06/01/22	49,900,000	-	2,025,000	47,875,000
Sewer Revenue Bonds, 2003	3.94%	(6/1;12/1)	12/03/03	06/01/23	4,935,000	-	220,000	4,715,000
Sewer Revenue Bonds, 2004	4.26%	(6/1;12/1)	12/01/04	06/01/24	30,710,000	-	1,195,000	29,515,000
Sewer Revenue Bond Anticipation Notes, 2006	5.15%	(6/1;12/1)	07/24/06	07/15/09	24,030,000	-	-	24,030,000
					213,495,000	-	9,130,000	204,365,000
Water Revenue Bonds, 1998	4.82%	(6/1;12/1)	12/01/98	12/01/18	11,495,000	-	725,000	10,770,000
Water Revenue Bonds, 2002	4.57%	(6/1;12/1)	10/01/02	12/01/22	31,015,000	-	1,095,000	29,920,000
					42,510,000	-	1,820,000	40,690,000
TOTAL					\$ 280,910,000	\$ -	\$ 12,020,000	\$ 268,890,000

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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, 2007**

	Debt Service Account				Debt Service Reserve Accounts			
	Water Revenue Bonds	Sewer Revenue Bonds	Drainage Revenue Bonds	Total	Water Revenue Bonds	Sewer Revenue Bonds	Total	Total
Cash and investments at beginning of year	\$ 749,065	\$ 2,196,427	\$ 1,604,351	\$ 4,549,843	\$ 3,928,380	\$ 18,325,688	\$ 22,254,068	
Cash receipts:								
Bond proceeds and accrued interest	-	3,121,619	-	3,121,619	-	-	-	
Transfers from operating cash and debt service reserve	578,542	-	-	578,542	-	-	-	
Total cash and investments	1,327,607	5,318,046	1,604,351	8,250,004	3,928,380	18,325,688	22,254,068	
Cash disbursements:								
Principal and interest payments, cost of issuance and transfers	271,551	2,246,357	-	2,517,908	-	-	-	
Total cash disbursements	271,551	2,246,357	-	2,517,908	-	-	-	
Cash and investments at end of year	\$ 1,056,056	\$ 3,071,689	\$ 1,604,351	\$ 5,732,096	\$ 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, 2007

	<u>Beginning of Year</u>	<u>Current Year Claims and Estimate Change</u>	<u>Payments</u>	<u>End of Year</u>
<u>WATER</u>				
Short-term:				
Workers' compensation	\$ 271,709	\$ 545,043	\$ 516,102	\$ 300,650
Health insurance	1,318,602	6,452,684	6,277,846	1,493,440
General liability	<u>3,958,187</u>	<u>(321,291)</u>	<u>151,000</u>	<u>3,485,896</u>
Total short-term	<u>5,548,498</u>	<u>6,676,436</u>	<u>6,944,948</u>	<u>5,279,986</u>
Long-term:				
Workers' compensation	1,723,846	28,193	-	1,752,039
General liability	<u>300,000</u>	<u>(150,000)</u>	<u>-</u>	<u>150,000</u>
Total long-term	<u>2,023,846</u>	<u>(121,807)</u>	<u>-</u>	<u>1,902,039</u>
Total	<u>\$ 7,572,344</u>	<u>\$ 6,554,629</u>	<u>\$ 6,944,948</u>	<u>\$ 7,182,025</u>
<u>SEWERAGE</u>				
Short-term:				
Workers' compensation	\$ 271,708	\$ 545,044	\$ 516,102	\$ 300,650
Health insurance	780,397	3,846,301	3,742,826	883,872
General liability	<u>4,020,057</u>	<u>(443,221)</u>	<u>177,570</u>	<u>3,399,266</u>
Total short-term	<u>5,072,162</u>	<u>3,948,124</u>	<u>4,436,498</u>	<u>4,583,788</u>
Long-term:				
Workers' compensation	1,723,847	28,192	-	1,752,039
General liability	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Total long-term	<u>1,723,847</u>	<u>178,192</u>	<u>-</u>	<u>1,902,039</u>
Total	<u>\$ 6,796,009</u>	<u>\$ 4,126,316</u>	<u>\$ 4,436,498</u>	<u>\$ 6,485,827</u>
<u>DRAINAGE</u>				
Short-term:				
Workers' compensation	\$ 271,708	\$ 545,048	\$ 516,107	\$ 300,649
Health insurance	592,025	2,690,337	2,611,838	670,524
General liability	<u>15,853,122</u>	<u>(3,104,166)</u>	<u>159,216</u>	<u>12,589,740</u>
Total short-term	<u>16,716,855</u>	<u>131,219</u>	<u>3,287,161</u>	<u>13,560,913</u>
Long-term:				
Workers' compensation	1,723,847	28,192	-	1,752,039
General liability	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total long-term	<u>1,723,847</u>	<u>28,192</u>	<u>-</u>	<u>1,752,039</u>
Total	<u>\$ 18,440,702</u>	<u>\$ 159,411</u>	<u>\$ 3,287,161</u>	<u>\$ 15,312,952</u>
<u>TOTAL</u>				
Short-term:				
Workers' compensation	\$ 815,125	\$ 1,635,135	\$ 1,548,311	\$ 901,949
Health insurance	2,691,024	12,989,322	12,632,510	3,047,836
General liability	<u>23,831,366</u>	<u>(3,868,678)</u>	<u>487,786</u>	<u>19,474,902</u>
Total short-term	<u>27,337,515</u>	<u>10,755,779</u>	<u>14,668,607</u>	<u>23,424,687</u>
Long-term:				
Workers' compensation	5,171,540	84,577	-	5,256,117
General liability	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
Total long-term	<u>5,471,540</u>	<u>84,577</u>	<u>-</u>	<u>5,556,117</u>
Total	<u>\$ 32,809,055</u>	<u>\$ 10,840,356</u>	<u>\$ 14,668,607</u>	<u>\$ 28,980,804</u>

See independent auditors' report.

SEWERAGE AND WATER BOARD OF NEW ORLEANS

SINGLE AUDIT REPORTS

DECEMBER 31, 2007

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date _____



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SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Single Audit Reports

December 31, 2007

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

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

We have audited the financial statements of the Sewerage and Water Board of New Orleans (the Board) as of and for the year ended December 31, 2007, and have issued our report thereon dated June 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Board's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above as item 2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Board's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Board's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board, the Board's management and federal awarding agencies and pass-through entities, such as the State of Louisiana and Legislative Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Pestlethwaite + Nettewill

New Orleans, Louisiana
June 24, 2008



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR
PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

Compliance

We have audited the compliance of the Sewerage and Water Board of New Orleans (the Board) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The Board's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the Board is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and

to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A control deficiency in the Board's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to administer a federal program such that there is more than a remote likelihood that a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Board's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Board as of and for the year ended December 31, 2006, and have issued our report thereon dated June 24, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board, the Board's management and federal awarding agencies and pass-through entities, such as the State of Louisiana and Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



New Orleans, Louisiana
June 24, 2008



SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2007

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
United States Environmental Protection Agency – Special Purpose: Passed through University of New Orleans Research & Technology Foundation: The Lake Pontchartrain Basin Restoration Program	66.606	\$ 23,146
Delta Regional Authority – Delta Regional Development Grants: Hazard Mitigation and Infrastructure Design	90.200	117,597
United States Department of Homeland Security – Special Community Disaster Loans (note 4)	97.030	15,945,181
United States Department of Homeland Security – Public Assistance Grants: Passed through the State of Louisiana Office of Homeland Security and Emergency Preparedness	97.036	<u>69,174,787</u>
		<u>\$ 85,260,711</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Notes to Schedule of Expenditures of Federal Awards

December 31, 2007

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of the Sewerage and Water Board of New Orleans (the Board). The Board's reporting entity is defined in note 1 to the financial statements for the year ended December 31, 2007. All federal awards received from federal agencies are included on the schedule.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in note 1 to the Board's financial statements for the year ended December 31, 2007.

(3) Relationship to Basic Financial Statements

Federal awards are included in statement of revenues, expenses and changes in net assets as follows:

Government operating grants	\$ 1,777,188
Capital contributions	<u>71,955,106</u>
	73,732,294
Non-federal capital contributions	<u>(4,416,764)</u>
	<u>\$ 69,315,530</u>

(4) Loans Payable to Federal Agency

The Board received a Special Community Disaster Loan (the "Loan") from the federal government in January 2006. Total draw downs as of December 31, 2007 total \$61,956,747. The terms of the Loan call for interest to accrue at various annual rates to be repaid with the principal when the Loan becomes due during 2011.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

(1) Summary of Auditors' Results

- (a) The type of report issued on the basic financial statements: unqualified opinion
- (b) Significant deficiencies in internal control were disclosed by the audit of the basic financial statements: yes; Material weaknesses: yes
- (c) Noncompliance which is material to the basic financial statements: no
- (d) Significant deficiencies in internal control over major program: none reported;
Material weaknesses: no
- (e) The type of report issued on compliance for major program: unqualified opinion
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: no
- (g) Major program:
United States Department of Homeland Security, Federal Emergency Management Agency –
Public Assistance Grants - passed through the State of Louisiana (CFDA number 97.036)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$2,075,244
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: no

(2) Findings Relating to the Basic Financial Statements Reported in Accordance with Government Auditing Standards:

2007-1 – Internal Control over Financial Reporting

Condition: General ledger account reconciliations for some significant accounts or transaction classes were not performed by management in a timely manner.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Schedule of Findings and Questioned Costs (continued)

Year ended December 31, 2007

2007-1 – Internal Control over Financial Reporting (continued)

Criteria: The definition of internal controls over financial reporting is that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertions embodied in the annual financial statements, which for the Board is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Our responsibility under current audit standards requires us to communicate this issue to management and the Board of Commissioners.

Effect: As part of the audit process; we have historically assisted management in drafting the financial statements and related notes for the year-end audit procedures. During the course of our audit procedures we identified significant adjusting entries to general ledger accounts. Because our involvement is so important to the financial reporting process and due to the significance of the financial statement adjustments, this is an indication that the internal control over financial reporting of the Board meets the definition of a significant deficiency and reaches the level of a material weakness.

Cause: Management did not perform the reconciliations of some general ledger accounts in a timely manner.

Auditor's recommendation: All general ledger accounts should be reconciled in a timely manner and reviewed by management. This review should be documented.

Management response: Receipt of documents and clarity of reimbursement of funds resulted in delay of posting the FEMA Receivables and Payables. The lack of sufficient and experienced staff had a direct impact on the timeliness of the reconciliation process and review. Additionally, management has established new procedures to strengthen internal controls and reconciliation of all accounts timely.

(3) Findings and Questioned Costs relating to Federal Awards: None

**SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana**

Summary Schedule of Prior Audit Findings

Year ended December 31, 2007

2006-1 – Internal Control over Financial Reporting

Condition: General ledger account reconciliations for some significant accounts or transaction classes were not performed by management in a timely manner.

Current Status: See repeat finding 2007-1.