

**ST. TAMMANY PARISH  
WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

Annual Financial Statements

December 31, 2020 and 2019



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## Independent Auditor's Report

To the Board of Commissioners  
St. Tammany Parish Water District No. 2  
Covington, Louisiana

### Report on Financial Statements

We have audited the accompanying financial statements of St. Tammany Parish Water District No. 2 (the District), a component unit of St. Tammany Parish, Louisiana, which comprise the statements of net position as of December 31, 2020 and 2019, the related statements of revenues and expenses, changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

### LOUISIANA • TEXAS

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RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each is separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, beginning on page 5, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of compensation, benefits, and other payments to agency head is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits, and other payments to agency head is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits, and other payments to agency head is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2021, on our consideration of St. Tammany Parish Water District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "LaForte".

A Professional Accounting Corporation

Covington, LA  
June 15, 2021

## **REQUIRED SUPPLEMENTARY INFORMATION**

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Management's Discussion and Analysis**

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The Management's Discussion and Analysis of St. Tammany Parish Water District No. 2's (the District) financial performance presents a narrative overview and analysis of the District's financial activities for the year ended December 31, 2020. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the financial statements.

**Financial Highlights**

The District's assets exceeded its liabilities at the close of fiscal year 2020 by \$1,782,594, which represents a 10% increase from last fiscal year. Of this amount, \$1,143,055 (unrestricted net position) may be used to meet the District's ongoing obligations to its users.

The District's operating revenue increased by \$36,285 (or 4%). Operating expenses increased by \$37,696 (or 5%). As a result, the District had net operating income of \$95,434 for 2020 as compared to net operating income of \$96,845 for 2019.

**Overview of the Financial Statements**

These financial statements consist of two sections: Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

**Basic Financial Statements**

The basic financial statements present information for the District as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the statements of net position; the statements of revenues and expenses; the statements of changes in net position; and the statements of cash flows.

The statements of net position present the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the District is improving or deteriorating.

The statements of revenues and expenses and the statements of changes in net position present information showing how the District's net position changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The statements of cash flows present information showing how the District's cash changed as a result of current year operations. The statements of cash flows are prepared using the direct method and include the reconciliation of operating income to net cash provided by operating activities (indirect method) as required by Governmental Accounting Standards Board (GASB) 34.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Management's Discussion and Analysis**

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**Financial Analysis of the District**

**Summary Statements of Net Position**

	<b>2020</b>	<b>2019</b>
Current and Restricted Assets	\$ 1,597,512	\$ 1,527,580
Capital Assets, Net	1,413,442	1,494,472
Other Assets	200	200
<b>Total Assets</b>	<b>3,011,154</b>	3,022,252
Current and Other Liabilities	223,560	232,670
Long-Term Debt Outstanding	1,005,000	1,170,000
<b>Total Liabilities</b>	<b>1,228,560</b>	1,402,670
<b>Net Position</b>		
Net Investment in Capital Assets	408,442	402,334
Restricted	231,097	287,797
Unrestricted	1,143,055	929,451
<b>Total Net Position</b>	<b>\$ 1,782,594</b>	\$ 1,619,582

Restricted net position represents those assets that are not available for spending as a result of bond agreements. Conversely, unrestricted net position represents those assets that do not have any limitations on their use.

The District's net position increased by \$163,012 from December 31, 2019 to December 31, 2020.

**Summary Statements of Revenues and Expenses**

	<b>2020</b>	<b>2019</b>
Operating Revenue	\$ 909,753	\$ 873,468
Operating Expenses	814,319	776,623
 Net Operating Income	 95,434	 96,845
Non-Operating Revenue, Net	67,578	42,788
 <b>Change in Net Position</b>	 <b>\$ 163,012</b>	 <b>\$ 139,633</b>

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Management's Discussion and Analysis**

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**Capital Assets and Debt Administration**

**Capital Assets**

As of December 31, 2020, the District had \$1,413,442, net of accumulated depreciation, invested in a broad range of capital assets, including land, rights of way, plant and distribution system, and furniture and equipment. (See table below.) This amount represents a net decrease (including additions and deductions) of \$81,030, or 5%, over last year. This decrease was due to current year depreciation.

	<b>2020</b>	<b>2019</b>
Land	\$ 88,379	\$ 88,379
Plant and Equipment	3,174,121	3,157,676
Less: Accumulated Depreciation	<u>(1,849,058)</u>	<u>(1,751,583)</u>
 <b>Total Capital Assets</b>	 <b><u>\$ 1,413,442</u></b>	 <b><u>\$ 1,494,472</u></b>

**Debt**

The District had \$1,090,000 in bonds outstanding at December 31, 2020, compared to \$1,255,000 last year. A summary of this debt is shown in the table below:

	<b>2020</b>	<b>2019</b>
Public Improvement Bonds	<u>\$ 1,090,000</u>	<u>\$ 1,255,000</u>
 <b>Total Debt</b>	 <b><u>\$ 1,090,000</u></b>	<b><u>\$ 1,255,000</u></b>

**Contacting the District's Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact A. J. Cigali, General Manager, 19432 Hwy. 36, Suite A, Covington, Louisiana 70433.

## **BASIC FINANCIAL STATEMENTS**

**ST. TAMMANY PARISH WATER DISTRICT NO. 2**  
**COVINGTON, LOUISIANA**  
**Statements of Net Position**  
**December 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 232,977	\$ 218,682
Ad Valorem Taxes Receivable, Net of Allowance of \$1,745 for 2020 and \$1,430 for 2019	85,082	66,742
Utility Customer Receivables, Net of Allowance of \$66,271 for 2020 and \$37,926 for 2019	108,646	67,351
Accrued Interest Receivable	-	557
Inventory	38,449	33,569
Prepaid Expenses	-	1,268
<b>Total Current Assets</b>	<b>465,154</b>	<b>388,169</b>
<b>Restricted Assets</b>		
Cash and Cash Equivalents	1,132,358	1,139,411
<b>Total Restricted Assets</b>	<b>1,132,358</b>	<b>1,139,411</b>
<b>Capital Assets</b>		
Plant and Equipment at Cost, Net	1,325,063	1,406,093
Land	88,379	88,379
<b>Total Capital Assets</b>	<b>1,413,442</b>	<b>1,494,472</b>
<b>Other Assets</b>		
Utility Deposits	200	200
<b>Total Other Assets</b>	<b>200</b>	<b>200</b>
<b>Total Assets</b>	<b>3,011,154</b>	<b>3,022,252</b>

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

**ST. TAMMANY PARISH WATER DISTRICT NO. 2**  
**COVINGTON, LOUISIANA**  
**Statements of Net Position (Continued)**  
**December 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Liabilities</b>		
<b>Current Liabilities (Payable from Unrestricted Assets)</b>		
Accounts Payable	5,347	6,983
Accrued Expenses	<u>17,703</u>	<u>24,230</u>
<b>Total Current Liabilities (Payable from Unrestricted Assets)</b>	<b><u>23,050</u></b>	<b><u>31,213</u></b>
<b>Current Liabilities (Payable from Restricted Assets)</b>		
Accrued Interest on Bonds	7,987	12,654
Meter Deposits	<u>107,523</u>	<u>103,803</u>
Current Maturities of Bonds Payable	<u>85,000</u>	<u>85,000</u>
<b>Total Current Liabilities (Payable from Restricted Assets)</b>	<b><u>200,510</u></b>	<b><u>201,457</u></b>
<b>Long-Term Debt, Net of Current Maturities</b>		
Public Improvement Bonds Payable	<u>1,005,000</u>	<u>1,170,000</u>
<b>Total Long-Term Debt</b>	<b><u>1,005,000</u></b>	<b><u>1,170,000</u></b>
<b>Total Liabilities</b>	<b><u>1,228,560</u></b>	<b><u>1,402,670</u></b>
<b>Net Position</b>		
Net Investment in Capital Assets	408,442	402,334
Restricted	<u>231,097</u>	<u>287,797</u>
Unrestricted	<u>1,143,055</u>	<u>929,451</u>
<b>Total Net Position</b>	<b><u>\$ 1,782,594</u></b>	<b><u>\$ 1,619,582</u></b>

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

**ST. TAMMANY PARISH WATER DISTRICT NO. 2**  
**COVINGTON, LOUISIANA**  
**Statements of Revenues and Expenses**  
**For the Years Ended December 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Operating Revenue</b>		
Water Revenue	\$ 844,208	\$ 800,501
Tap and Connect Fees	57,337	64,906
Other Revenue	8,208	8,061
<b>Total Operating Revenue</b>	<b>909,753</b>	<b>873,468</b>
<b>Operating Expenses</b>		
Salaries	344,379	315,194
Depreciation	97,475	95,012
Employee Benefits	91,044	82,319
Utilities and Telephone	36,124	43,587
Legal and Professional	34,284	35,078
Insurance	31,187	33,572
Bad Debt Expense	28,345	2,754
Payroll Taxes	27,774	24,103
Repairs and Maintenance	25,939	36,739
Other	24,000	26,501
Operating Supplies	23,979	28,766
Rent	16,800	17,068
Postage and Office Supplies	11,540	9,221
Director Fees	8,610	9,990
Parish Assessment Expense	6,117	6,595
Truck Expenses	5,611	8,177
Uniforms	1,037	1,632
Travel, Conferences, and Conventions	74	315
<b>Total Operating Expenses</b>	<b>814,319</b>	<b>776,623</b>
<b>Net Operating Income</b>	<b>95,434</b>	<b>96,845</b>
<b>Non-Operating Revenue (Expense)</b>		
Ad Valorem Taxes	86,377	70,229
Impact Fees	9,600	8,400
Interest Income	3,717	3,403
Interest Expense	(32,116)	(39,244)
<b>Total Non-Operating Revenue, Net</b>	<b>67,578</b>	<b>42,788</b>
<b>Change in Net Position</b>	<b>\$ 163,012</b>	<b>\$ 139,633</b>

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

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA  
Statements of Changes in Net Position  
For the Years Ended December 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Net Position, Beginning of Year</b>	\$ 1,619,582	\$ 1,479,949
Change in Net Position	<u>163,012</u>	<u>139,633</u>
<b>Net Position, End of Year</b>	<u>\$ 1,782,594</u>	<u>\$ 1,619,582</u>

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

**ST. TAMMANY PARISH WATER DISTRICT NO. 2**  
**COVINGTON, LOUISIANA**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from Customers	\$ 869,015	\$ 874,716
Payments to Suppliers	(286,669)	(294,482)
Payments to Employees and Payroll Taxing Agencies	<u>(441,950)</u>	<u>(382,019)</u>
<b>Net Cash Provided by Operating Activities</b>	<b>140,396</b>	<b>198,215</b>
<b>Cash Flows from Non-Capital Financing Activities</b>		
Net Receipts from Meter Deposits	<u>3,720</u>	<u>2,612</u>
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<b>3,720</b>	<b>2,612</b>
<b>Cash Flows from Capital Financing Activities</b>		
Principal Paid on Bonds	(575,000)	(80,000)
Proceeds from Issuance of Bonds	410,000	-
Interest Paid on Bonds	(36,783)	(39,958)
Proceeds from Ad Valorem Taxes	68,037	108,368
Proceeds from Impact Fees	9,600	8,400
Purchase of Capital Assets, Net	(16,445)	(37,655)
Net Decrease in Construction in Progress	<u>-</u>	<u>31,618</u>
<b>Net Cash Used in Capital Financing Activities</b>	<b>(140,591)</b>	<b>(9,227)</b>
<b>Cash Flows from Investing Activities</b>		
Interest Received on Investments	<u>3,717</u>	<u>3,403</u>
<b>Net Cash Provided by Investing Activities</b>	<b>3,717</b>	<b>3,403</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>7,242</b>	<b>195,003</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>1,358,093</b>	<b>1,163,090</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 1,365,335</b>	<b>\$ 1,358,093</b>

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

**ST. TAMMANY PARISH WATER DISTRICT NO. 2**  
**COVINGTON, LOUISIANA**  
**Statements of Cash Flows (Continued)**  
**For the Years Ended December 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities</b>		
Net Operating Income	\$ 95,434	\$ 96,845
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Bad Debt Expense	28,345	2,754
Depreciation	97,475	95,012
Increase in Utility Customer Receivables	(69,640)	(1,506)
Increase in Inventory	(4,880)	(2,364)
Decrease in Prepaid Expenses	1,268	-
Decrease in Accounts Payable	(1,636)	(8,020)
(Decrease) Increase in Accrued Expenses	(5,970)	15,494
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 140,396</b>	<b>\$ 198,215</b>

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

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies**

The accounting and reporting policies of St. Tammany Parish Water District No. 2 (the District) conform to accounting principles generally accepted in the United States of America applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes (R.S.), to the guidance set forth in the *Louisiana Governmental Audit Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*. The following is a summary of the District's significant accounting policies:

**Reporting Entity**

In accordance with Governmental Accounting Standards Board (GASB) Codification Section 2100, the District is considered a component unit of St. Tammany Parish (the Parish) reporting entity because (1) commissioners of the District are appointed by the Parish and (2) the District provides water service to residents within the Parish. While the District is an integral part of the Parish reporting entity and should be included within the financial statements of that reporting entity, GASB Codification Section 2600 provides that a component unit may also issue financial statements separate from those of the reporting entity. Accordingly, the accompanying financial statements present information only on the financial operations of the District and do not present information on the Parish, the general government services provided by the Parish, or on other component units that comprise the St. Tammany Parish reporting entity.

**Fund Accounting**

The accounts of the District are organized on the basis of proprietary fund accounting used by governmental entities. The proprietary 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 the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statements of net position. The proprietary fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Basis of Accounting (Continued)**

In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 63, net position is classified into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- a. *Net Investment in Capital Assets* - This component of net position consists of the historical cost of capital assets, including any restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, plus deferred outflows of resources, less deferred inflows of resources, related to those assets.
- b. *Restricted* - This component of net position consists of assets that have constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- c. *Unrestricted* - All other net position is reported in this category.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Cash and Cash Equivalents and Investments**

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

The District defines cash and cash equivalents to include cash on hand, demand deposits, and all highly liquid investments with an original maturity of three months or less when purchased.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Utility Customer Receivables and Allowance for Doubtful Accounts**

Utility customer receivables on the accompanying statements of net position are for services provided through December 31<sup>st</sup> that have not yet been collected. Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. The allowance for doubtful accounts totaled \$66,271 and \$37,926 at December 31, 2020 and 2019, respectively.

**Capital Assets**

All capital assets of the proprietary fund are recorded at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. Pre-construction costs associated with the development of the water system, which include engineering, legal, and interest costs, are capitalized and will be amortized over their estimated useful lives using the straight-line method. The District maintains a threshold level of \$2,500 or more for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. The following estimated useful lives and methods are used to compute depreciation:

Building and Building Improvements	10 - 15 Years	Straight-Line
Machinery and Equipment (Plant)	5 - 40 Years	Straight-Line
Water Meters	10 - 30 Years	Straight-Line
Office Equipment	5 Years	Straight-Line
Transportation Equipment	5 - 7 Years	Straight-Line
Software	5 Years	Straight-Line
Leasehold Improvements	10 Years	Straight-Line

Depreciation and amortization expenses amounted to \$97,475 and \$95,012 for the years ended December 31, 2020 and 2019, respectively.

**Inventory**

Inventory is stated at the lower of cost or market using the first-in, first-out method.

**Federal Income Taxes**

The District is not subject to federal income taxes in accordance with Internal Revenue Code (IRC) Section 115 regarding income of states, municipalities, and political subdivisions.

**Estimates**

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

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**New Accounting Pronouncements - Adopted**

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.. The District adopted GASB 84 in the year ended December 31, 2020. The adoption of GASB 84 did not have any effects on the financial statements.

**New Accounting Pronouncements - Not Yet Adopted**

The GASB issued Statement No. 87, *Leases*. The objective of GASB 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. Under this Statement, a lessee is required to recognize a lease liability and a tangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effect Dates of Certain Authoritative Guidance*, postponing the effective date of GASB 87 to reporting periods beginning after June 15, 2021. It is currently unknown if adoption of this standard will have an impact on the financial statements.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The objectives of GASB 89 are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponing the effective date of GASB 89 to reporting periods beginning after December 15, 2020. It is currently unknown if adoption of this standard will have an impact on the financial statements.

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. This Statement is effective for fiscal years beginning after June 15, 2022. It is currently unknown if adoption of this standard will have an impact on the financial statements.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**New Accounting Pronouncements - Not Yet Adopted (Continued)**

The GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The Statement amends Questions 4.3 and 4.5 of Implementation Guide 201-2. The requirements of this Statement related to the accounting and financial reporting for Internal Revenue Code Section 457 plans are effective for fiscal years beginning after June 15, 2021. Adoption of this standard will have no impact on the financial statements.

**Note 2. Cash and Cash Equivalents**

*Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District does not have a deposit policy for custodial credit risk. Under state law, deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities, plus the federal deposit insurance, must at all times equal the amount on deposit with the fiscal agent. The custodial bank must advertise and sell the pledged securities within 10 days of being notified that the fiscal agent has failed to pay deposited funds upon demand.

At December 31, 2020, the District had \$166,897 in non-interest-bearing deposits. These deposits are secured from risk by \$250,000 of federal deposit insurance. At December 31, 2020, the District had \$1,207,113 in interest-bearing deposits. These deposits are secured from risk by \$250,000 of federal deposit insurance and \$957,113 of pledged securities held in the name of the fiscal agent bank by a custodial bank that is mutually acceptable to both parties.

At December 31, 2020 and 2019, cash and cash equivalents for both current and restricted assets consisted of the following:

	<b>2020</b>	<b>2019</b>
Unrestricted	\$ 232,977	\$ 218,682
Restricted	<u>1,132,358</u>	<u>1,139,411</u>
<b>Cash on Hand and in Bank</b>	<b>\$ 1,365,335</b>	<b>\$ 1,358,093</b>

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 3. Restricted Assets**

Restricted cash and cash equivalents are as follows:

	<b>2020</b>	<b>2019</b>
Reserve Funds - Public Improvement Bonds	\$ 53,944	\$ 187,689
Proceeds of Public Improvement Bonds	61,584	77,862
Meter Deposits	109,303	105,272
Reserve for Impact Fees	206,776	196,293
Board-Designated Reserve	700,751	572,295
 <b>Total Restricted Assets</b>	 <b>\$ 1,132,358</b>	 <b>\$ 1,139,411</b>

**Note 4. Ad Valorem Taxes**

The District is authorized to levy a special ad valorem tax of 3.06 mills on all property subject to taxation to cover debt service requirements. The proceeds of this ad valorem tax are for the purpose of paying the principal and interest of the outstanding public improvement bonds.

The following is a roll-forward of ad valorem funds for the year ended December 31, 2020:

Beginning Cash and Investments	\$ 187,689
Plus: Ad Valorem Tax Receipts	68,037
Subtotal	255,726
Less: Interest Payments on Bonds	(36,782)
Principal Payments on Bonds	<u>(165,000)</u>
 <b>Ending Cash and Investments</b>	 <b>\$ 53,944</b>

Ad valorem taxes that attach as an enforceable lien on property are levied each November 1<sup>st</sup> on the assessed value listed as of the prior January 1<sup>st</sup> for all real property, merchandise, and movable property located in the District. Billed taxes are delinquent on January 1<sup>st</sup> of each subsequent year. The St. Tammany Parish Tax Collector bills and collects the District's ad valorem taxes using the assessed value determined by the Tax Assessor of St. Tammany Parish, Louisiana, as specified by Louisiana law. A re-evaluation of all property is required to be completed no less than every four years. The last re-evaluation was completed in 2020.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 5. Capital Assets**

Capital asset activity for the year ended December 31, 2020 was as follows:

<b>December 31, 2020</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 88,379	\$ -	\$ -	\$ 88,379
<b>Total Capital Assets Not Being Depreciated</b>				
	88,379	-	-	88,379
<b>Capital Assets Being Depreciated</b>				
Building	20,060	-	-	20,060
Building Improvements	39,432	-	-	39,432
Machinery and Equipment	2,379,945	4,398	-	2,384,343
Water Meters	547,923	9,382	(580)	556,725
Office Equipment	14,060	-	-	14,060
Transportation Equipment	94,170	-	-	94,170
Software	53,836	3,245	-	57,081
Leasehold Improvements	8,250	-	-	8,250
<b>Total Capital Assets Being Depreciated</b>				
	3,157,676	17,025	(580)	3,174,121
<b>Less Accumulated Depreciation for:</b>				
Building	(20,060)	-	-	(20,060)
Building Improvements	(29,571)	(3,943)	-	(33,514)
Machinery and Equipment	(1,120,096)	(69,772)	-	(1,189,868)
Water Meters	(452,116)	(5,520)	-	(457,636)
Office Equipment	(11,597)	(985)	-	(12,582)
Transportation Equipment	(67,383)	(11,733)	-	(79,116)
Software	(45,395)	(4,696)	-	(50,091)
Leasehold Improvements	(5,365)	(826)	-	(6,191)
<b>Total Accumulated Depreciation</b>				
	(1,751,583)	(97,475)	-	(1,849,058)
<b>Total Capital Assets Being Depreciated, Net</b>				
	1,406,093	(80,450)	(580)	1,325,063
<b>Total Capital Assets, Net</b>				
	\$ 1,494,472	\$ (80,450)	\$ (580)	\$ 1,413,442

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 6. Long-Term Debt**

The following is a summary of bond transactions of the District for the years ended December 31, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
<b>Public Improvement Bonds</b>		
Bonds Payable at January 1 <sup>st</sup>	\$ 1,255,000	\$ 1,335,000
Bonds Issued	410,000	-
Bonds Retired	<u>(575,000)</u>	<u>(80,000)</u>
 <b>Bonds Payable at December 31<sup>st</sup></b>	 <b>\$ 1,090,000</b>	 <b>\$ 1,255,000</b>

The following is a description of the bonds of the District for the years ended December 31, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
<b>Public Improvement Bonds</b>		
\$815,000 General Obligation Bonds dated March 1, 2009; due in annual principal installments of \$5,000 - \$65,000, plus semi-annual interest payments through March 1, 2028, with interest at 4.0% - 7.0%, collateralized by ad valorem taxes.	\$ -	\$ 490,000
\$985,000 General Obligation Bonds dated April 9, 2013; due in annual principal installments of \$35,000 - \$70,000, plus semi-annual interest payments through March 1, 2033, with interest at 1.0% - 2.75%, collateralized by ad valorem taxes.	725,000	765,000
\$410,000 General Obligation Refunding Bonds dated January 7, 2020; due in annual principal installments of \$40,000 - \$50,000, plus semi-annual interest payments through March 1, 2028, with interest at 2.40%, collateralized by ad valorem taxes.	<u>365,000</u>	-
 <b>Total Public Improvement Bonds</b>	 <b>\$ 1,090,000</b>	 <b>\$ 1,255,000</b>

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 6. Long-Term Debt (Continued)**

During 2020, the District refunded the 2021 through 2028 maturities of the Series 2008 General Obligation Bonds totaling \$410,000. The District issued \$410,000 in 2020 General Obligation Refunding Bonds to pay off the refunded debt. As a result, the refunded bonds are considered defeased and the liability has been removed. The advance refunding was undertaken to reduce the total debt service payments over the eight years and to obtain an economic gain of \$67,293.

The annual requirements to amortize all bonds outstanding as of December 31, 2020, including interest payments, are as follows:

<b>Year Ending December 31,</b>	<b>Public Improvement Bonds</b>			<b>Total</b>
	<b>Principal</b>	<b>Interest</b>		
2021	\$ 85,000	\$ 23,143		\$ 108,143
2022	90,000	21,447		111,447
2023	85,000	19,753		104,753
2024	95,000	17,958		112,958
2025	95,000	16,003		111,003
2026 - 2030	440,000	47,650		487,650
2031 - 2033	200,000	8,063		208,063
<b>Total</b>	<b>\$ 1,090,000</b>	<b>\$ 154,017</b>		<b>\$ 1,244,017</b>

**Note 7. Net Position**

Net position for the years ended December 31, 2020 and 2019 consisted of the following:

	<b>2020</b>	<b>2019</b>
Net Investment in Capital Assets	\$ 408,442	\$ 402,334
Restricted		
Restricted for Public Improvement Bonds	22,541	90,035
Restricted for Capital Improvements	206,776	196,293
Restricted for Meter Deposits	1,780	1,469
Unrestricted	1,143,055	929,451
<b>Total</b>	<b>\$ 1,782,594</b>	<b>\$ 1,619,582</b>

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 8. Commitments**

The District entered into a ten-year lease for office space commencing on January 1, 2002, with monthly payments of \$966. The District renewed this lease for a five-year term commencing on December 31, 2012, with monthly payments of \$1,268. A second five-year renewal was entered into on December 31, 2017, with monthly payments of \$1,400. Rental expense totaled \$16,800 for the years ended December 31, 2020 and 2019. The following are the scheduled future minimum rental payments under the new lease:

<b>Year Ending December 31,</b>	<b>Amount</b>
2021	\$ 16,800
2022	<u>16,800</u>
<b>Total</b>	<b><u>\$ 33,600</u></b>

**Note 9. Water Rates**

The District charged the following water rates to each of its customers based on volume for each of the years ended December 31, 2020 and 2019:

<b>Residential</b>	
First 2,000 gallons	\$ 18.00
Over 2,000 gallons	\$ 3.75 per 1,000 gallons
<b>Commercial</b>	
First 2,000 gallons	\$ 30.00
Over 2,000 gallons	\$ 4.00 per 1,000 gallons

During 2020, the District served 1,853 customers.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 10. Board Members' Per Diem Payments**

The following is a schedule of fees paid to board members during the years ended December 31, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Pierre Fabre, Vice-President 73460 Military Road Covington, LA 70435	\$ 1,020	\$ 1,200
Lorraine Saba, Secretary-Treasurer 100 Magnolia Gardens Drive Covington, LA 70435	4,530	5,070
Julie Huhn, Commissioner 73482 Military Road Covington, LA 70435	1,020	1,140
Michael Stubbs, President 20470 Stubbs Lane Covington, LA 70435	1,020	1,260
Monique Stubbs, Commissioner 73181 Artesian Drive Covington, LA 70435	1,020	1,320
<b>Total</b>	<b>\$ 8,610</b>	<b>\$ 9,990</b>

**Note 11. Contingency**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern", and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries, including the geographical area in which the District operates. It is unknown how long these conditions will last and what the complete financial effect will be to the District.

## **OTHER SUPPLEMENTARY INFORMATION**

**ST. TAMMANY PARISH WATER DISTRICT NO. 2**

**COVINGTON, LOUISIANA**

**Schedule of Compensation, Benefits, and Other Payments**

**to Agency Head**

**For the Year Ended December 31, 2020**

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**Agency Head**

A.J. Cigali, General Manager

<b>Purpose</b>	<b>Amount</b>
Salary	\$38,009
Benefits - Insurance	\$25,101
Benefits - Retirement	\$0
Benefits - Other	\$0
Car Allowance	\$0
Vehicle Provided by Government	\$0
Per Diem	\$0
Reimbursements	\$0
Travel	\$0
Registration Fees	\$0
Conference Travel	\$0
Continuing Professional Education Fees	\$0
Housing	\$0
Unvouchered Expenses	\$0
Special Meals	\$0

See independent auditor's report.

**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**

Independent Auditor's Report

To the Board of Commissioners  
St. Tammany Parish Water District No. 2  
Covington, Louisiana

We have audited, 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, the accompanying financial statements of St. Tammany Parish Water District No. 2 (the District), a component unit of St. Tammany Parish, Louisiana, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 15, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in black ink, appearing to read "LaForte".

A Professional Accounting Corporation

Covington, LA  
June 15, 2021

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA  
Schedule of Findings and Responses  
For the Year Ended December 31, 2020**

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**Part I - Summary of Auditor's Results**

**Financial Statements**

- |  |            |
|--|------------|
| 1. Type of auditor's report issued:  | Unmodified |
| 2. Internal control over financial reporting and compliance and other matters: |            |
| a. Material weaknesses identified?   | No         |
| b. Significant deficiencies identified?  | No         |
| c. Noncompliance material to the financial statements?                         | No         |
| 3. Management letter comment provided?   | None       |

**Federal Awards**

Not applicable.

**Part II - Findings Related to the Financial Statements**

None.