

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

Annual Financial Statements

December 31, 2017 and 2016



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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, as of and for the years ended December 31, 2017 and 2016, 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.

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, 2017 and 2016, 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.

Emphasis of Matter

As discussed in Note 11 to the financial statements, certain conditions resulting in understatement of amounts previously reported for ad valorem taxes receivable and revenue as of December 31, 2016, were discovered during the current year. Accordingly, amounts reported for ad valorem receivable and revenue have been restated in the 2016 financial statements now presented, and an adjustment has been made to net position, beginning of the year. Our opinion is not modified with respect to this matter.

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 May 25 2018, 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 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 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 cursive script that reads "LaForte".

A Professional Accounting Corporation

Covington, LA
May 25, 2018

REQUIRED SUPPLEMENTARY INFORMATION

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

Management's Discussion and Analysis

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, 2017. 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 2017 by \$1,352,562, which represents a 0.2% decrease from last fiscal year. Of this amount, \$712,565 (unrestricted net position) may be used to meet the District's ongoing obligations to its users.

The District's operating revenue decreased by \$5,463 (or 1%) largely due to a decrease in other revenue. Operating expenses increased by \$19,869 (or 3%), due to increases in salaries, depreciation, and repairs and maintenance expenses. As a result, the District had a net operating loss of \$76,627 for 2017 as compared to a net operating loss of \$51,295 for 2016.

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

Financial Analysis of the District

Summary Statements of Net Position

	2017	Restated 2016
Current and Restricted Assets	\$ 1,277,267	\$ 1,273,386
Capital Assets, Net	1,667,966	1,785,348
Other Assets	200	200
Total Assets	2,945,433	3,058,934
Current and Other Liabilities	257,871	246,016
Long-Term Debt Outstanding	1,335,000	1,458,000
Total Liabilities	1,592,871	1,704,016
Net Position		
Net Investment in Capital Assets	460,322	483,595
Restricted	179,675	185,972
Unrestricted	712,565	685,351
Total Net Position	\$ 1,352,562	\$ 1,354,918

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 decreased by \$2,356 from December 31, 2016 to December 31, 2017.

Summary Statements of Revenues and Expenses

	2017	Restated 2016
Operating Revenue	\$ 711,341	\$ 716,804
Operating Expenses	787,968	768,099
Net Operating Loss	(76,627)	(51,295)
Non-Operating Revenue, Net	74,271	61,736
Change in Net Position	\$ (2,356)	\$ 10,441

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

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2017, the District had \$1,667,966, 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 \$117,382, or 7%, over last year. This decrease was due to current year depreciation.

	2017	2016
Land	\$ 88,379	\$ 88,379
Plant and Equipment	3,113,198	3,297,759
Less: Accumulated Depreciation	(1,533,611)	(1,600,790)
Total Capital Assets	\$ 1,667,966	\$ 1,785,348

Debt

The District had \$1,458,000 in bonds outstanding at December 31, 2017, compared to \$1,573,000 last year. A summary of this debt is shown in the table below:

	2017	2016
Revenue Bonds	\$ 43,000	\$ 83,000
Public Improvement Bonds	1,415,000	1,490,000
Total Debt	\$ 1,458,000	\$ 1,573,000

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, 2017 and 2016

	2017	Restated 2016
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 261,263	\$ 308,313
Ad Valorem Taxes Receivable, Net of Allowance of \$1,155 for 2017 and \$1,088 for 2016	106,305	104,592
Utility Customer Receivables, Net of Allowance of \$26,073 for 2017 and \$24,367 for 2016	61,365	56,855
Accrued Interest Receivable	557	557
Inventory	36,786	24,347
Prepaid Expenses	1,268	1,268
	<hr/>	<hr/>
Total Current Assets	467,544	495,932
Restricted Assets		
Cash and Cash Equivalents Board-Designated for Replacement of Capital Assets	265,402	207,376
Restricted Cash	544,321	570,078
	<hr/>	<hr/>
Total Restricted Assets	809,723	777,454
Capital Assets		
Plant and Equipment at Cost, Net	1,579,587	1,696,969
Land	88,379	88,379
	<hr/>	<hr/>
Total Capital Assets	1,667,966	1,785,348
Other Assets		
Utility Deposits	200	200
	<hr/>	<hr/>
Total Other Assets	200	200
	<hr/>	<hr/>
Total Assets	2,945,433	3,058,934

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, 2017 and 2016

	2017	Restated 2016
Liabilities		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	7,904	7,334
Accrued Expenses	12,676	10,822
Total Current Liabilities (Payable from Unrestricted Assets)	20,580	18,156
Current Liabilities (Payable from Restricted Assets)		
Accrued Interest on Bonds	14,913	16,337
Meter Deposits	99,378	96,523
Current Maturities of Bonds Payable	123,000	115,000
Total Current Liabilities (Payable from Restricted Assets)	237,291	227,860
Long-Term Debt, Net of Current Maturities		
Revenue Bonds Payable	-	43,000
Public Improvement Bonds Payable	1,335,000	1,415,000
Total Long-Term Debt	1,335,000	1,458,000
Total Liabilities	1,592,871	1,704,016
Net Position		
Net Investment in Capital Assets	460,322	483,595
Restricted	179,675	185,972
Unrestricted	712,565	685,351
Total Net Position	\$ 1,352,562	\$ 1,354,918

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, 2017 and 2016

	2017	Restated 2016
Operating Revenue		
Water Revenue	\$ 640,707	\$ 641,772
Tap and Connect Fees	65,469	63,904
Other Revenue	5,165	11,128
	<hr/>	<hr/>
Total Operating Revenue	711,341	716,804
	<hr/>	<hr/>
Operating Expenses		
Salaries	274,583	267,408
Depreciation	139,664	132,391
Employee Benefits	79,154	82,452
Repairs and Maintenance	53,602	23,229
Insurance	45,776	38,759
Utilities and Telephone	40,431	40,993
Legal and Professional	32,251	31,380
Other	29,162	11,381
Payroll Taxes	21,922	21,096
Operating Supplies	19,998	38,279
Rent	15,984	15,978
Director Fees	9,630	9,270
Postage and Office Supplies	7,946	9,512
Truck Expenses	7,613	6,977
Parish Assessment Expense	7,147	6,030
Bad Debt Expense	1,706	24,367
Uniforms	1,217	1,478
Travel, Conferences, and Conventions	182	348
System Upgrades	-	6,771
	<hr/>	<hr/>
Total Operating Expenses	787,968	768,099
	<hr/>	<hr/>
Net Operating Loss	(76,627)	(51,295)
	<hr/>	<hr/>
Non-Operating Revenue (Expense)		
Ad Valorem Taxes	114,579	107,745
Impact Fees	5,400	4,200
Interest Income	1,828	1,462
Interest Expense	(47,536)	(51,671)
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Total Non-Operating Revenue, Net	74,271	61,736
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Change in Net Position	\$ (2,356)	\$ 10,441
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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, 2017 and 2016**

	2017	Restated 2016
Net Position, Beginning of Year as Previously Reported	\$ 1,354,918	\$ 1,241,184
Prior Period Adjustment	-	103,293
Net Position, Beginning of Year, Restated	1,354,918	1,344,477
Change in Net Position	(2,356)	10,441
Net Position, End of Year	\$ 1,352,562	\$ 1,354,918

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, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Receipts from Customers	\$ 706,831	\$ 737,162
Payments to Suppliers	(306,436)	(292,663)
Payments to Employees and Payroll Taxing Agencies	(351,883)	(343,546)
	<u>48,512</u>	<u>100,953</u>
Net Cash Provided by Operating Activities		
Cash Flows from Non-Capital Financing Activities		
Net Receipts from Meter Deposits	<u>2,855</u>	<u>3,955</u>
	<u>2,855</u>	<u>3,955</u>
Net Cash Provided by Non-Capital Financing Activities		
Cash Flows from Capital Financing Activities		
Principal Paid on Bonds	(115,000)	(108,000)
Interest Paid on Bonds	(48,960)	(52,976)
Proceeds from Ad Valorem Taxes	112,866	106,446
Proceeds from Impact Fees	5,400	4,200
Purchase of Capital Assets	(22,282)	(149,003)
Increase in Construction in Progress	-	(169,109)
	<u>(67,976)</u>	<u>(368,442)</u>
Net Cash Used in Capital Financing Activities		
Cash Flows from Investing Activities		
Interest Received on Investments	<u>1,828</u>	<u>1,462</u>
	<u>1,828</u>	<u>1,462</u>
Net Cash Provided by Investing Activities		
Net Decrease in Cash and Cash Equivalents	(14,781)	(262,072)
Cash and Cash Equivalents, Beginning of Year	<u>1,085,767</u>	<u>1,347,839</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,070,986</u>	<u>\$ 1,085,767</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 (Continued)
 For the Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Net Operating Loss to		
Net Cash Provided by Operating Activities		
Net Operating Loss	\$ (76,627)	\$ (51,295)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided by Operating Activities		
Bad Debt Expense	1,706	24,367
Depreciation	139,664	132,391
Increase in Utility Customer Receivables	(6,216)	(4,218)
Decrease in Accounts Receivable - Other	-	209
Increase in Inventory	(12,439)	(5,075)
Increase (Decrease) in Accounts Payable	570	(1,740)
Increase in Accrued Expenses	1,854	6,314
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	\$ 48,512	\$ 100,953

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

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

Notes to Financial Statements

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 and 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

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 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, 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

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 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 \$26,073 and \$24,367, at December 31, 2017 and 2016, 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 asset 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 \$139,664 and \$132,391, for the years ended December 31, 2017 and 2016, 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

Note 1. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

The GASB issued statement No. 87 (GASB 87), *Leases*, in June 2017. 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. This Statement will be effective for the District for the fiscal year ending December 31, 2020.

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, 2017, the District had \$307,222 in non-interest bearing deposits. These deposits are secured from risk by \$250,000 of federal deposit insurance and \$57,222 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, 2017, the District had \$790,877 in interest-bearing deposits. These deposits are secured from risk by \$250,000 of federal deposit insurance and \$540,877 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, 2017 and 2016, cash and cash equivalents for both current and restricted assets consisted of the following:

	2017	2016
Unrestricted	\$ 261,263	\$ 308,313
Restricted	809,723	777,454
Cash on Hand and in Bank	\$ 1,070,986	\$ 1,085,767

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

Notes to Financial Statements

Note 3. Restricted Assets

Resolutions authorizing the issuance of a Waterworks Revenue Bond dated January 7, 1999, for \$500,000, provided for certain restrictions of assets of the District. These requirements have been met as of December 31, 2017 and 2016.

Restricted cash and investments follow:

	2017	2016
Revenue Bonds	\$ 113,809	\$ 108,219
Public Improvement Bonds	203,779	209,092
Proceeds of Public Improvement Bonds	127,355	156,246
Meter Deposits	99,378	96,521
Reserve for Asset Replacement	265,402	207,376
Total Restricted Assets	\$ 809,723	\$ 777,454

Note 4. Ad Valorem Taxes

The District is authorized to levy a special ad valorem tax of 2.89 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, 2017:

Beginning Cash and Investments	\$ 209,090
Plus: Ad Valorem Tax Receipts	112,866
Subtotal	<u>321,956</u>
Less: Interest Payments on Bonds	(43,177)
Principal Payments on Bonds	<u>(75,000)</u>
Ending Cash and Investments	\$ 203,779

Ad valorem taxes that attach as an enforceable lien on property are levied each November 1st on the assessed value listed as of the prior January 1st for all real property, merchandise, and movable property located in the District. Billed taxes were delinquent on January 1st 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 reevaluation of all property is required to be completed no less than every four years. The last reevaluation was completed in 2016.

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

Notes to Financial Statements

Note 5. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

December 31, 2017	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 88,379	\$ -	\$ -	\$ 88,379
Total Capital Assets Not Being Depreciated	88,379	-	-	88,379
Capital Assets Being Depreciated				
Building	20,060	-	-	20,060
Building Improvements	39,432	-	-	39,432
Machinery and Equipment	2,539,465	2,845	(206,843)	2,335,467
Water Meters	547,923	-	-	547,923
Office Equipment	9,137	4,923	-	14,060
Transportation Equipment	94,170	-	-	94,170
Software	39,322	14,514	-	53,836
Leasehold Improvements	8,250	-	-	8,250
Total Capital Assets Being Depreciated	3,297,759	22,282	(206,843)	3,113,198
Less Accumulated Depreciation for:				
Building	(20,060)	-	-	(20,060)
Building Improvements	(17,743)	(3,942)	-	(21,685)
Machinery and Equipment	(1,121,947)	(70,250)	206,843	(985,354)
Water Meters	(369,139)	(44,663)	-	(413,802)
Office Equipment	(7,211)	(1,945)	-	(9,156)
Transportation Equipment	(31,266)	(12,581)	-	(43,847)
Software	(30,535)	(5,458)	-	(35,993)
Leasehold Improvements	(2,889)	(825)	-	(3,714)
Total Accumulated Depreciation	(1,600,790)	(139,664)	206,843	(1,533,611)
Total Capital Assets Being Depreciated, Net	1,696,969	(117,382)	-	1,579,587
Total Capital Assets, Net	\$ 1,785,348	\$ (117,382)	\$ -	\$ 1,667,966

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

Notes to Financial Statements

Note 6. Long-Term Debt

The following is a summary of bond transactions of the District for the years ended December 31, 2017 and 2016:

	2017	2016
Revenue Bonds		
Bonds Payable at January 1 st	\$ 83,000	\$ 121,000
Bonds Retired	(40,000)	(38,000)
Bonds Payable at December 31st	\$ 43,000	\$ 83,000
Public Improvement Bonds		
Bonds Payable at January 1 st	\$ 1,490,000	\$ 1,560,000
Bonds Retired	(75,000)	(70,000)
Bonds Payable at December 31st	\$ 1,415,000	\$ 1,490,000

The following is a description of the bonds of the District for the years ended December 31, 2017 and 2016:

	2017	2016
Revenue Bonds		
\$500,000 Water Revenue Bonds dated January 7, 1999; due in annual principal installments of \$11,000 - \$43,000, plus semi-annual interest payments through September 1, 2018, with interest at 4.10% to 5.90%, collateralized by water revenues.	\$ 43,000	\$ 83,000
Public Improvement Bonds		
\$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% to 7.0%, collateralized by ad valorem taxes.	\$ 570,000	\$ 610,000

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

Notes to Financial Statements

Note 6. Long-Term Debt (Continued)

	2017	2016
Public Improvement Bonds (Continued)		
\$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% to 2.75%, collateralized by ad valorem taxes.	845,000	880,000
Total Public Improvement Bonds	\$ 1,415,000	\$ 1,490,000

The annual requirements to amortize all bonds outstanding as of December 31, 2017, including interest payments, are as follows:

Year Ending December 31,	Revenue Bonds			Public Improvement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 43,000	\$ 2,537	\$ 45,537	\$ 80,000	\$ 41,153	\$ 121,153
2019	-	-	-	80,000	39,033	119,033
2020	-	-	-	85,000	36,768	121,768
2021	-	-	-	90,000	34,268	124,268
2022	-	-	-	95,000	31,525	126,525
2023 to 2027	-	-	-	540,000	108,864	648,864
2028 to 2032	-	-	-	375,000	30,228	405,228
2033 to 2036	-	-	-	70,000	963	70,963
Total	\$ 43,000	\$ 2,537	\$ 45,537	\$ 1,415,000	\$ 322,802	\$ 1,737,802

Note 7. Net Position

Net position for the years ended December 31, 2017 and 2016, consisted of the following:

	2017	2016
Net Investment in Capital Assets	\$ 460,322	\$ 483,595
Restricted		
Restricted for Revenue Bonds	69,963	66,600
Restricted for Public Improvement Bonds	109,712	119,372
Unrestricted	712,565	685,351
Total	\$ 1,352,562	\$ 1,354,918

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

Notes to Financial Statements

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 \$15,210, for the years ended December 31, 2017 and 2016. The following are the scheduled future minimum rental payments under the new lease:

Year Ending December 31,	Amount
2018	\$ 16,800
2019	16,800
2020	16,800
2021	16,800
2022	16,800
Total	\$ 84,000

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, 2017 and 2016:

Residential	
First 2,000 gallons	\$ 15.00
Over 2,000 gallons	\$ 2.80 per 1,000 gallons
Commercial	
First 2,000 gallons	\$ 25.00
Over 2,000 gallons	\$ 3.10 per 1,000 gallons

During 2017, the District served 1,827 customers.

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

Notes to Financial Statements

Note 10. Board Members' Per Diem Payments

The following is a schedule of fees paid to board members during the years ended December 31st:

	2017	2016
Pierre Fabre, Vice-President 73460 Military Road Covington, LA 70435	\$ 1,260	\$ 1,320
Lorraine Saba, Secretary-Treasurer 100 Magnolia Gardens Drive Covington, LA 70435	4,650	3,300
Kathy Nastasi, President 36 Claudia Drive Covington, LA 70435	1,140	1,140
Michael Stubbs, Commissioner 20470 Stubbs Lane Covington, LA 70435	1,320	1,260
Monique Stubbs, Commissioner 73181 Artesian Drive Covington, LA 70435	1,260	1,320
Total	\$ 9,630	\$ 8,340

Note 11. Prior Period Adjustment

During the fiscal year ended December 31, 2017, certain conditions resulting in understatement of amounts previously reported for ad valorem taxes receivable and revenue as of December 31, 2016 were discovered. Therefore, an adjustment to beginning net position for 2016 has been recorded to correct these understatements, the net effect of which increased beginning net position by \$103,293. For fiscal years ended December 31, 2017 and 2016, the resulting increases to change in net position were \$1,714 and \$1,299, respectively.

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, 2017

Agency Head
A.J. Cigali, General Manager

Purpose	Amount
Salary	\$33,495
Benefits - Insurance	\$24,330
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, 2017, 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 May 25, 2018.

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) to determine the 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.

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 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 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 Professional Accounting Corporation

Covington, LA
May 25, 2018

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Schedule of Findings and Responses
For the Year Ended December 31, 2017**

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.

AGREED-UPON PROCEDURES REPORT
St. Tammany Parish Water District No. 2

Independent Accountant's Report
on Applying Agreed-Upon Procedures

For the Period of January 1, 2017 - December 31, 2017

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

We have performed the procedures enumerated below as they are a required part of the engagement. We are required to perform each procedure and report the results, including any exceptions. Management is required to provide a corrective action plan that addresses all exceptions noted. For any procedures that do not apply, we have marked "not applicable."

Management of St. Tammany Parish Water District No. 2 (the District), a component unit of St. Tammany Parish, Louisiana, is responsible for its financial records, establishing internal controls over financial reporting, and compliance with applicable laws and regulations. These procedures were agreed to by management of the District and the Legislative Auditor, State of Louisiana, solely to assist the users in assessing certain controls and in evaluating management's assertions about the District's compliance with certain laws and regulations during the period of January 1, 2017 through December 31, 2017, in accordance with Act 774 of 2014 Regular Legislative Session. The sufficiency of these procedures is solely the responsibility of the District and the Legislative Auditor. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which the report has been requested or for another purpose.

The procedures and associated results are as follows:

Utility Collections and Adjustments

1. Obtain the entity's written policies and procedures over utility collections/adjustments (or report that the entity does not have any written policies and procedures over utility collections/adjustments) and report whether those written policies and procedures address receiving, recording, and preparing deposits, as well as adjustments to utility accounts.

Results: Written policies and procedures obtained over utility collections/adjustments address receiving, recording, and preparing deposits, as well as adjustments to utility accounts.

2. Obtain existing written documentation (e.g., sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile utility collections to the general ledger and subsidiary ledgers by a person who is not responsible for collections.

Results: The District has a formal process to reconcile utility collections to the general ledger and subsidiary ledgers by a person who is not responsible for collections.

3. Obtain a listing of all utility accounts with past due balances of 30 days or more and management's representation that the listing is complete.
 - a) Select the five largest dollar amount accounts with past due balances and the five accounts with the oldest past due balances for testing.
 - b) Obtain supporting documentation for the past-due accounts and report if the ten selected accounts were put on a payment plan and if payments have been made in accordance with the payment plan.
 - c) If any of the selected accounts are not on a payment plan with payments being made in accordance with said plan, report if the utility services have been cut-off.

Results: Obtained a listing of all utility accounts with past due balances of 30 days or more and management's representation that the listing is complete. Of the ten items selected, one item was put on a payment plan, and the payments have been made in accordance with the payment plan. The remaining nine items are not on a payment plan, and the utility services were cut-off.

4. Obtain a listing of meter deposit account deposits and refunds during the fiscal period. Randomly select five deposits and five refunds for testing, or all deposits/refunds if less than five.
 - a) Using bank statements/reconciliations and customer account detail records, verify whether customer account postings match bank account deposits and refunds. Report any exceptions.

Results: No exceptions were noted as a result of applying this procedure.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

1. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

Results: Obtained a listing of all active credit cards, bank debit cards, fuel cards, and P-cards and management's representation that the listing is complete.

2. Using the listing prepared by management, randomly select five cards (or select all cards if the entity has less than five cards) that were used during the fiscal period.

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Randomly select a monthly statement or combined statement for each card and:

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder.
- b) Report whether finance charges and/or late fees were assessed on the selected statements.

Results: Of the five monthly statements selected, one of the statements had not been approved, in writing, by someone other than the authorized card holder. None of the five monthly statements selected were assessed finance charges and/or late fees.

Management's Response: The District will make sure that any purchases made by authorized credit card users are approved by someone other than the card holder.

3. Using the monthly statements or combined statements selected under #2 above, obtain supporting documentation for all transactions for each of the five cards selected (i.e., each of the five cards should have one month of transactions subject to testing).
 - a) For each transaction, report whether the transaction is supported by:
 - An original itemized receipt that identifies precisely what was purchased (or equivalent documentation for fuel card purchases). *In the absence of an original itemized receipt, equivalent documentation is acceptable for fuel card purchases only. Acceptable forms of equivalent documentation would include evidence that the authorized card holder(s) reviewed and approved the accuracy of transactions on the fuel card statement, in writing, prior to payment.*
 - Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
 - Other documentation that may be required by written policy (e.g., purchase order, written authorization).
 - b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e., transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.
 - c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g., cash advances or non-business purchases, regardless of whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

Results: All transactions were supported by an original itemized receipt and documentation of business/public purpose. No other documentation was required by written policy. There were no exceptions relating to the entity's purchasing/disbursement policies and the Louisiana Bid Law. There were no exceptions related to the requirements of Article 7, Section 14.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to perform, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of management of St. Tammany Parish Water District No. 2 and the Legislative Auditor, State of Louisiana, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script, appearing to read "LaPorte".

A Professional Accounting Corporation

Covington, LA
May 25, 2018