

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

Annual Financial Statements

December 31, 2021 and 2020



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Independent Auditor's Report

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

Opinions

We have audited the financial statements of the business-type activities 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, 2021 and 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2021 and 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principals generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principals generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principals generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not 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 audit 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 Supplementary Information

Our audit was 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 and schedule of compensation paid to board members is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 and schedule of compensation paid to board members 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 the *Government Auditing Standards*, we have also issued our report dated March 24, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Professional Accounting Corporation

Covington, LA
March 24, 2022

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, 2021. 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 2021 by \$1,935,420, which represents a 9% increase from last fiscal year. Of this amount, \$1,305,044 (unrestricted net position) may be used to meet the District's ongoing obligations to its users.

The District's operating revenue decreased by \$55,698 (or 6%). Operating expenses increased by \$12,864 (or 2%). As a result, the District had net operating income of \$26,872 for 2021 as compared to net operating income of \$95,434 for 2020.

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

	2021	2020
Current and Restricted Assets	\$ 1,741,641	\$ 1,597,512
Capital Assets, Net	1,349,722	1,413,442
Other Assets	200	200
Total Assets	3,091,563	3,011,154
Current and Other Liabilities	241,143	223,560
Long-Term Debt Outstanding	915,000	1,005,000
Total Liabilities	1,156,143	1,228,560
Net Position		
Net Investment in Capital Assets	434,722	408,442
Restricted	195,654	231,097
Unrestricted	1,305,044	1,143,055
Total Net Position	\$ 1,935,420	\$ 1,782,594

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 \$152,826 from December 31, 2020 to December 31, 2021.

Summary Statements of Revenues and Expenses

	2021	2020
Operating Revenue	\$ 854,055	\$ 909,753
Operating Expenses	827,183	814,319
Net Operating Income	26,872	95,434
Non-Operating Revenue, Net	125,954	67,578
Change in Net Position	\$ 152,826	\$ 163,012

**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, 2021, the District had \$1,349,722, 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 \$63,720, or 5%, over last year. This decrease was due to current year depreciation.

	2021	2020
Land	\$ 88,379	\$ 88,379
Plant and Equipment	3,201,909	3,174,121
Less: Accumulated Depreciation	<u>(1,940,566)</u>	<u>(1,849,058)</u>
Total Capital Assets	<u>\$ 1,349,722</u>	<u>\$ 1,413,442</u>

Debt

The District had \$1,005,000 in bonds outstanding at December 31, 2021, compared to \$1,090,000 last year. A summary of this debt is shown in the table below:

	2021	2020
Public Improvement Bonds	<u>\$ 1,005,000</u>	<u>\$ 1,090,000</u>
Total Debt	<u>\$ 1,005,000</u>	<u>\$ 1,090,000</u>

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, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 259,583	\$ 232,977
Ad Valorem Taxes Receivable, Net of Allowance of \$2,769 for 2021 and \$1,745 for 2020	126,456	85,082
Utility Customer Receivables, Net of Allowance of \$43,709 for 2021 and \$66,271 for 2020	64,358	108,646
Inventory	40,528	38,449
Total Current Assets	490,925	465,154
Restricted Assets		
Cash and Cash Equivalents	1,250,716	1,132,358
Total Restricted Assets	1,250,716	1,132,358
Capital Assets		
Plant and Equipment at Cost, Net	1,261,343	1,325,063
Land	88,379	88,379
Total Capital Assets	1,349,722	1,413,442
Other Assets		
Utility Deposits	200	200
Total Other Assets	200	200
Total Assets	3,091,563	3,011,154

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, 2021 and 2020

	2021	2020
Liabilities		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	15,465	5,347
Accrued Expenses	18,841	17,703
	<u>34,306</u>	<u>23,050</u>
Total Current Liabilities (Payable from Unrestricted Assets)		
	<u>34,306</u>	<u>23,050</u>
Current Liabilities (Payable from Restricted Assets)		
Accrued Interest on Bonds	7,442	7,987
Meter Deposits	109,395	107,523
Current Maturities of Bonds Payable	90,000	85,000
	<u>206,837</u>	<u>200,510</u>
Total Current Liabilities (Payable from Restricted Assets)		
	<u>206,837</u>	<u>200,510</u>
Long-Term Debt, Net of Current Maturities		
Public Improvement Bonds Payable	915,000	1,005,000
	<u>915,000</u>	<u>1,005,000</u>
Total Long-Term Debt		
	<u>915,000</u>	<u>1,005,000</u>
Total Liabilities		
	<u>1,156,143</u>	<u>1,228,560</u>
Net Position		
Net Investment in Capital Assets	434,722	408,442
Restricted	195,654	231,097
Unrestricted	1,305,044	1,143,055
	<u>1,935,420</u>	<u>1,782,594</u>
Total Net Position		
	<u>\$ 1,935,420</u>	<u>\$ 1,782,594</u>

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, 2021 and 2020

	2021	2020
Operating Revenue		
Water Revenue	\$ 792,531	\$ 844,208
Tap and Connect Fees	56,037	57,337
Other Revenue	5,487	8,208
Total Operating Revenue	854,055	909,753
Operating Expenses		
Salaries	318,071	344,379
Depreciation	91,508	97,475
Employee Benefits	90,973	91,044
Bad Debt Expense	41,528	28,345
Operating Supplies	41,266	23,979
Repairs and Maintenance	35,593	25,939
Utilities and Telephone	34,797	36,124
Legal and Professional	34,735	34,284
Insurance	33,500	31,187
Other	24,643	24,000
Payroll Taxes	24,478	27,774
Rent	16,800	16,800
Postage and Office Supplies	11,143	11,540
Director Fees	10,410	8,610
Truck Expenses	10,193	5,611
Parish Assessment Expense	6,675	6,117
Uniforms	645	1,037
Travel, Conferences, and Conventions	225	74
Total Operating Expenses	827,183	814,319
Net Operating Income	26,872	95,434
Non-Operating Revenue (Expense)		
Ad Valorem Taxes	136,488	86,377
Impact Fees	9,600	9,600
Interest Income	2,464	3,717
Interest Expense	(22,598)	(32,116)
Total Non-Operating Revenue, Net	125,954	67,578
Change in Net Position	\$ 152,826	\$ 163,012

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, 2021 and 2020

	2021	2020
Net Position, Beginning of Year	\$ 1,782,594	\$ 1,619,582
Change in Net Position	<u>152,826</u>	<u>163,012</u>
Net Position, End of Year	<u>\$ 1,935,420</u>	<u>\$ 1,782,594</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, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Receipts from Customers	\$ 898,343	\$ 869,015
Payments to Suppliers	(318,592)	(286,669)
Payments to Employees and Payroll Taxing Agencies	(407,906)	(441,950)
Net Cash Provided by Operating Activities	171,845	140,396
Cash Flows from Non-Capital Financing Activities		
Net Receipts from Meter Deposits	1,872	3,720
Net Cash Provided by Non-Capital Financing Activities	1,872	3,720
Cash Flows from Capital Financing Activities		
Principal Paid on Bonds	(85,000)	(575,000)
Proceeds from Issuance of Bonds	-	410,000
Interest Paid on Bonds	(23,143)	(36,783)
Proceeds from Ad Valorem Taxes	95,114	68,037
Proceeds from Impact Fees	9,600	9,600
Purchase of Capital Assets, Net	(27,788)	(16,445)
Net Cash Used in Capital Financing Activities	(31,217)	(140,591)
Cash Flows from Investing Activities		
Interest Received on Investments	2,464	3,717
Net Cash Provided by Investing Activities	2,464	3,717
Net Increase in Cash and Cash Equivalents	144,964	7,242
Cash and Cash Equivalents, Beginning of Year	1,365,335	1,358,093
Cash and Cash Equivalents, End of Year	\$ 1,510,299	\$ 1,365,335
Unrestricted Cash and Cash Equivalents	\$ 259,583	\$ 232,977
Restricted Cash and Cash Equivalents	1,250,716	1,132,358
Total Cash and Cash Equivalents	\$ 1,510,299	\$ 1,365,335

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, 2021 and 2020

	2021	2020
Reconciliation of Net Operating Income to Net Cash		
Provided by Operating Activities		
Net Operating Income	\$ 26,872	\$ 95,434
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Bad Debt Expense	41,528	28,345
Depreciation	91,508	97,475
Decrease (Increase) in Utility Customer Receivables	2,760	(69,640)
Increase in Inventory	(2,079)	(4,880)
Decrease in Prepaid Expenses	-	1,268
Increase (Decrease) in Accounts Payable	10,118	(1,636)
Increase (Decrease) in Accrued Expenses	1,138	(5,970)
Net Cash Provided by Operating Activities	\$ 171,845	\$ 140,396

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 (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

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

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 31st 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 \$43,709 and \$66,271 at December 31, 2021 and 2020, 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 \$91,508 and \$97,475 for the years ended December 31, 2021 and 2020, 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.

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

New Accounting Pronouncements - Adopted

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. The District adopted GASB 89 in the year ended December 31, 2021. The adoption of GASB 89 did not have an effect 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. 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

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, 2021, the District had \$156,689 in non-interest-bearing deposits. These deposits are secured from risk by \$250,000 of federal deposit insurance. At December 31, 2021, the District had \$1,370,998 in interest-bearing deposits. These deposits are secured from risk by \$250,000 of federal deposit insurance and \$1,120,998 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, 2021 and 2020, cash and cash equivalents for both current and restricted assets consisted of the following:

	2021	2020
Unrestricted	\$ 259,583	\$ 232,977
Restricted	<u>1,250,716</u>	<u>1,132,358</u>
Cash on Hand and in Bank	<u>\$ 1,510,299</u>	<u>\$ 1,365,335</u>

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

Notes to Financial Statements

Note 3. Restricted Assets

Restricted cash and cash equivalents were as follows:

	2021	2020
Reserve Funds - Public Improvement Bonds	\$ 40,915	\$ 53,944
Proceeds of Public Improvement Bonds	33,916	61,584
Meter Deposits	110,934	109,303
Reserve for Impact Fees	216,726	206,776
Board-Designated Reserve	848,225	700,751
Total Restricted Assets	\$ 1,250,716	\$ 1,132,358

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, 2021:

Beginning Cash and Investments	\$ 53,944
Plus: Ad Valorem Tax Receipts	95,114
Subtotal	149,058
Less: Interest Payments on Bonds	(23,143)
Principal Payments on Bonds	(85,000)
Ending Cash and Investments	\$ 40,915

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 are 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 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

Note 5. Capital Assets

Capital asset activity for the year ended December 31, 2021 was as follows:

December 31, 2021	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	2,384,343	27,788	-	2,412,131
Water Meters	556,725	-	-	556,725
Office Equipment	14,060	-	-	14,060
Transportation Equipment	94,170	-	-	94,170
Software	57,081	-	-	57,081
Leasehold Improvements	8,250	-	-	8,250
Total Capital Assets Being Depreciated	3,174,121	27,788	-	3,201,909
Less Accumulated Depreciation for:				
Building	(20,060)	-	-	(20,060)
Building Improvements	(33,514)	(3,947)	-	(37,461)
Machinery and Equipment	(1,189,868)	(71,245)	-	(1,261,113)
Water Meters	(457,636)	(5,942)	-	(463,578)
Office Equipment	(12,582)	(984)	-	(13,566)
Transportation Equipment	(79,116)	(5,016)	-	(84,132)
Software	(50,091)	(3,552)	-	(53,643)
Leasehold Improvements	(6,191)	(822)	-	(7,013)
Total Accumulated Depreciation	(1,849,058)	(91,508)	-	(1,940,566)
Total Capital Assets Being Depreciated, Net	1,325,063	(63,720)	-	1,261,343
Total Capital Assets, Net	\$ 1,413,442	\$ (63,720)	\$ -	\$ 1,349,722

**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, 2021 and 2020:

	2021	2020
Public Improvement Bonds		
Bonds Payable at January 1 st	\$ 1,090,000	\$ 1,255,000
Bonds Issued	-	410,000
Bonds Retired	(85,000)	(575,000)
	<u>\$ 1,005,000</u>	<u>\$ 1,090,000</u>
Bonds Payable at December 31st	<u>\$ 1,005,000</u>	<u>\$ 1,090,000</u>

The following is a description of the bonds of the District for the years ended December 31, 2021 and 2020:

	2021	2020
Public Improvement Bonds		
\$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.	680,000	725,000
\$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.	325,000	365,000
	<u>325,000</u>	<u>365,000</u>
Total Public Improvement Bonds	<u>\$ 1,005,000</u>	<u>\$ 1,090,000</u>

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

Notes to Financial Statements

Note 6. Long-Term Debt (Continued)

The annual requirements to amortize all bonds outstanding as of December 31, 2021, including interest payments, are as follows:

Year Ending December 31,	Public Improvement Bonds		
	Principal	Interest	Total
2022	\$ 90,000	\$ 21,448	\$ 111,448
2023	85,000	19,753	104,753
2024	95,000	17,958	112,958
2025	95,000	16,003	111,003
2026	105,000	13,875	118,875
2027 - 2031	400,000	36,363	436,363
2032 - 2033	135,000	5,475	140,475
Total	\$ 1,005,000	\$ 130,875	\$ 1,135,875

Note 7. Net Position

Net position for the years ended December 31, 2021 and 2020 consisted of the following:

	2021	2020
Net Investment in Capital Assets	\$ 434,722	\$ 408,442
Restricted		
Restricted for Public Improvement Bonds	(22,611)	22,541
Restricted for Capital Improvements	216,726	206,776
Restricted for Meter Deposits	1,539	1,780
Unrestricted	1,305,044	1,143,055
Total	\$ 1,935,420	\$ 1,782,594

**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 \$16,800 for the years ended December 31, 2021 and 2020. The following are the scheduled future minimum rental payments under the new lease:

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

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, 2021 and 2020:

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

During 2021, the District served 1,854 customers.

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, 2021

Agency Head
A.J. Cigali, General Manager

Purpose	Amount
Salary	\$36,921
Benefits - Insurance	\$26,264
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.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Schedule of Compensation Paid to Board Members
For the Years Ended December 31, 2021 and 2020**

	2021	2020
Pierre Fabre, Vice-President 73460 Military Road Covington, LA 70435	\$ 1,380	\$ 1,020
Lorraine Saba, Secretary-Treasurer 100 Magnolia Gardens Drive Covington, LA 70435	5,070	4,530
Julie Huhn, Commissioner 73482 Military Road Covington, LA 70435	1,200	1,020
Michael Stubbs, President 20470 Stubbs Lane Covington, LA 70435	1,380	1,020
Monique Stubbs, Commissioner 73181 Artesian Drive Covington, LA 70435	1,380	1,020
Total	\$ 10,410	\$ 8,610

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 financial statements of the business-type activities 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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 24, 2022.

Report on 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.

Report on 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 Professional Accounting Corporation

Covington, LA
March 24, 2022

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Schedule of Findings and Responses
For the Year Ended December 31, 2021**

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.

Part III - Prior Year Findings Related to the Financial Statements

None

AGREED-UPON PROCEDURES REPORT

St. Tammany Parish Waterworks District No. 2

Independent Accountant's Report
on Applying Agreed-Upon Procedures

For the Period of January 1, 2021 - July 31, 2021

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

We have performed the procedures enumerated below on the control and compliance (C/C) areas identified by the Louisiana Legislative Auditor's (LLA) Agreed-Upon Procedures (AUPs) in accordance with the authority of Act 774 of the 2014 Regular Legislative Session for the period from January 1, 2021 through July 31, 2021. St. Tammany Parish Waterworks District No. 2's (the District) management is responsible for those C/C areas identified in the AUPs.

Management of St. Tammany Parish Waterworks District No. 2, a component unit of St. Tammany Parish, Louisiana, has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement, which is to perform specified procedures on the C/C areas identified by the LLA's AUPs in accordance with the authority of Act 774 of the 2014 Regular Legislative Session for the period January 1, 2021 to July 31, 2021. Additionally, the LLA has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

Information Technology Disaster Recovery/Business Continuity (follow-up)

1. Obtain and inspect the entity's written policies and procedures over information technology disaster recovery/business continuity (or the equivalent contractual terms if IT services are outsourced) and observe that they address (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

Results: We obtained the District's written policies and procedures over information technology disaster recovery/business continuity and discussed the results with management.

Sexual Harassment (follow-up)

1. Obtain and inspect the entity's written sexual harassment policies and procedures and observe that they address all requirements of Louisiana Revised Statutes (R.S.) 42:342-344, including agency responsibilities and prohibitions; annual employee training; and annual reporting requirements.

Results: We obtained the District's written sexual harassment policies and procedures and observed that they addressed all of the above.

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories if applicable to public funds and the entity's operations:
 - a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.
 - b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the Public Bid Law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) ***Disbursements***, including processing, reviewing, and approving.
 - d) ***Receipts/Collections***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).
 - e) ***Payroll/Personnel***, including (1) payroll processing, (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employee(s) rate of pay or approval and maintenance of pay rate schedules.
 - f) ***Contracting***, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
 - g) ***Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)***, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).
 - h) ***Travel and Expense Reimbursement***, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the entity's ethics policy.
- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Results: We obtained the District's written policies and procedures covering the areas above and noted that they addressed all requirements above with one exception - the District's policies and procedures over purchasing do not address how vendors are added to the vendor list.

We were engaged by St. Tammany Parish Waterworks District No. 2 to perform this agreed-upon procedures engagement and conducted our engagement 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 and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified by the LLA AUPs. 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.

We are required to be independent of St. Tammany Parish Waterworks District No. 2 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon engagement.

This report is intended solely to describe the scope of testing performed on those C/C areas identified by the LLA, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report 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 18, 2022

WATER WORKS DISTRICT NO. 2

PARISH OF ST. TAMMANY

MICHAEL STUBBS
President

PIERRE FABRE
Vice-President

LORRAINE SABA
Secretary-Treasurer

MONIQUE STUBBS
Commissioner

JULIE HUHN
Commissioner

Mr. Michael J. Waguespack
Louisiana Legislative Auditor
1600 N 3rd Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Act 774 Agreed-Upon Procedures

The management of St. Tammany Parish Waterworks District No. 2 wishes to provide the following responses relative to the results of the 2021 Act 774 agreed-upon procedures engagement:

- 1) In response to the results of the Written Policies and Procedures section, management will amend procedures over purchasing to include all elements as listed.

Sincerely,



A.J. Cigali,
General Manager

19432 Highway 36 – Suite A Covington, LA 70433
(985) 892-8445 - Fax (985) 892-8011
Website: wwd2stp.com