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

Annual Financial Statements

December 31, 2018 and 2017
## Contents

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</tr>
</tbody>
</table>
Independent Auditor's Report

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

Report on Financial Statements
We have audited the accompanying financial statements of St. Tammany Parish Water District No. 2 (the District), a component unit of St. Tammany Parish, Louisiana, which comprise the statements of net position as of December 31, 2018 and 2017, the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated May 24, 2019, on our consideration of St. Tammany Parish Water District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District’s internal control over financial reporting and compliance.

A Professional Accounting Corporation

Covington, LA
May 24, 2019
REQUIRED SUPPLEMENTARY INFORMATION
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, 2018. 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 2018 by $1,479,949, which represents a 9% increase from last fiscal year. Of this amount, $761,053 (unrestricted net position) may be used to meet the District’s ongoing obligations to its users.

The District’s operating revenue increased by $127,585 (or 18%) largely due to an increase in water revenues. Operating expenses increased by $269 (or -0.1%). As a result, the District had net operating income of $50,689 for 2018 as compared to a net operating loss of $76,627 for 2017.

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.

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.
Management's Discussion and Analysis

Financial Analysis of the District

Summary Statements of Net Position

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current and Restricted Assets</td>
<td>$1,369,600</td>
<td>$1,277,267</td>
</tr>
<tr>
<td>Capital Assets, Net</td>
<td>1,583,447</td>
<td>1,667,966</td>
</tr>
<tr>
<td>Other Assets</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>2,953,247</td>
<td>2,945,433</td>
</tr>
<tr>
<td>Current and Other Liabilities</td>
<td>218,298</td>
<td>257,871</td>
</tr>
<tr>
<td>Long-Term Debt Outstanding</td>
<td>1,255,000</td>
<td>1,335,000</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>1,473,298</td>
<td>1,592,871</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Investment in Capital Assets</td>
<td>424,687</td>
<td>460,322</td>
</tr>
<tr>
<td>Restricted</td>
<td>294,209</td>
<td>179,675</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>761,053</td>
<td>712,565</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>$1,479,949</td>
<td>$1,352,562</td>
</tr>
</tbody>
</table>

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 $127,387 from December 31, 2017 to December 31, 2018.

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue</td>
<td>$838,926</td>
<td>$711,341</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>788,237</td>
<td>787,968</td>
</tr>
<tr>
<td><strong>Net Operating Income (Loss)</strong></td>
<td>50,689</td>
<td>(76,627)</td>
</tr>
<tr>
<td>Non-Operating Revenue, Net</td>
<td>76,698</td>
<td>74,271</td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td>$127,387</td>
<td>$(2,356)</td>
</tr>
</tbody>
</table>
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, 2018, the District had $1,583,447, 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 $84,519, or 5%, over last year. This decrease was due to current year depreciation.

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 88,379</td>
<td>$ 88,379</td>
</tr>
<tr>
<td>Plant and Equipment</td>
<td>3,120,021</td>
<td>3,113,198</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>31,618</td>
<td>-</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>(1,666,571)</td>
<td>(1,533,611)</td>
</tr>
<tr>
<td><strong>Total Capital Assets</strong></td>
<td><strong>$ 1,583,447</strong></td>
<td><strong>$ 1,667,966</strong></td>
</tr>
</tbody>
</table>

Debt
The District had $1,335,000 in bonds outstanding at December 31, 2018, compared to $1,458,000 last year. A summary of this debt is shown in the table below:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Bonds</td>
<td>$ -</td>
<td>$ 43,000</td>
</tr>
<tr>
<td>Public Improvement Bonds</td>
<td>1,335,000</td>
<td>1,415,000</td>
</tr>
<tr>
<td><strong>Total Debt</strong></td>
<td><strong>$ 1,335,000</strong></td>
<td><strong>$ 1,458,000</strong></td>
</tr>
</tbody>
</table>

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, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$175,560</td>
<td>$261,263</td>
</tr>
<tr>
<td>Ad Valorem Taxes Receivable, Net of Allowance of $1,167 for 2018 and $1,155 for 2017</td>
<td>104,881</td>
<td>106,305</td>
</tr>
<tr>
<td>Accrued Interest Receivable</td>
<td>557</td>
<td>557</td>
</tr>
<tr>
<td>Inventory</td>
<td>31,205</td>
<td>36,786</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>1,268</td>
<td>1,268</td>
</tr>
<tr>
<td></td>
<td><strong>Total Current Assets</strong></td>
<td><strong>382,070</strong></td>
</tr>
<tr>
<td><strong>Restricted Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>987,530</td>
<td>809,723</td>
</tr>
<tr>
<td></td>
<td><strong>Total Restricted Assets</strong></td>
<td><strong>987,530</strong></td>
</tr>
<tr>
<td><strong>Capital Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant and Equipment at Cost, Net</td>
<td>1,463,450</td>
<td>1,579,587</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>31,618</td>
<td>-</td>
</tr>
<tr>
<td>Land</td>
<td>88,379</td>
<td>88,379</td>
</tr>
<tr>
<td></td>
<td><strong>Total Capital Assets</strong></td>
<td><strong>1,583,447</strong></td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utility Deposits</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td><strong>Total Other Assets</strong></td>
<td><strong>200</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Total Assets</strong></td>
<td><strong>2,953,247</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities (Payable from Unrestricted Assets)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>15,003</td>
<td>7,904</td>
</tr>
<tr>
<td>Accrued Expenses</td>
<td>8,736</td>
<td>12,676</td>
</tr>
<tr>
<td><strong>Total Current Liabilities (Payable from Unrestricted Assets)</strong></td>
<td>23,739</td>
<td>20,580</td>
</tr>
<tr>
<td><strong>Current Liabilities (Payable from Restricted Assets)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Interest on Bonds</td>
<td>13,368</td>
<td>14,913</td>
</tr>
<tr>
<td>Meter Deposits</td>
<td>101,191</td>
<td>99,378</td>
</tr>
<tr>
<td>Current Maturities of Bonds Payable</td>
<td>80,000</td>
<td>123,000</td>
</tr>
<tr>
<td><strong>Total Current Liabilities (Payable from Restricted Assets)</strong></td>
<td>194,559</td>
<td>237,291</td>
</tr>
<tr>
<td><strong>Long-Term Debt, Net of Current Maturities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Improvement Bonds Payable</td>
<td>1,255,000</td>
<td>1,335,000</td>
</tr>
<tr>
<td><strong>Total Long-Term Debt</strong></td>
<td>1,255,000</td>
<td>1,335,000</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>1,473,298</td>
<td>1,592,871</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Investment in Capital Assets</td>
<td>424,687</td>
<td>460,322</td>
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<tr>
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<td>294,209</td>
<td>179,675</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>761,053</td>
<td>712,565</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>$ 1,479,949</td>
<td>$ 1,352,562</td>
</tr>
</tbody>
</table>

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, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Revenue</td>
<td>$770,587</td>
<td>$640,707</td>
</tr>
<tr>
<td>Tap and Connect Fees</td>
<td>62,295</td>
<td>65,469</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>6,044</td>
<td>5,165</td>
</tr>
<tr>
<td><strong>Total Operating Revenue</strong></td>
<td><strong>838,926</strong></td>
<td><strong>711,341</strong></td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>292,665</td>
<td>274,583</td>
</tr>
<tr>
<td>Depreciation</td>
<td>122,960</td>
<td>139,664</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>79,000</td>
<td>79,154</td>
</tr>
<tr>
<td>Operating Supplies</td>
<td>44,595</td>
<td>19,998</td>
</tr>
<tr>
<td>Utilities and Telephone</td>
<td>42,862</td>
<td>40,431</td>
</tr>
<tr>
<td>Legal and Professional</td>
<td>33,010</td>
<td>32,251</td>
</tr>
<tr>
<td>Insurance</td>
<td>30,743</td>
<td>45,776</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>29,175</td>
<td>53,602</td>
</tr>
<tr>
<td>Other</td>
<td>29,092</td>
<td>29,162</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>23,181</td>
<td>21,922</td>
</tr>
<tr>
<td>Rent</td>
<td>17,642</td>
<td>15,984</td>
</tr>
<tr>
<td>Director Fees</td>
<td>9,750</td>
<td>9,630</td>
</tr>
<tr>
<td>Bad Debt Expense</td>
<td>9,099</td>
<td>1,706</td>
</tr>
<tr>
<td>Postage and Office Supplies</td>
<td>8,473</td>
<td>7,946</td>
</tr>
<tr>
<td>Truck Expenses</td>
<td>7,871</td>
<td>7,613</td>
</tr>
<tr>
<td>Parish Assessment Expense</td>
<td>6,591</td>
<td>7,147</td>
</tr>
<tr>
<td>Uniforms</td>
<td>1,201</td>
<td>1,217</td>
</tr>
<tr>
<td>Travel, Conferences, and Conventions</td>
<td>327</td>
<td>182</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>788,237</strong></td>
<td><strong>787,968</strong></td>
</tr>
<tr>
<td><strong>Net Operating Income (Loss)</strong></td>
<td><strong>50,689</strong></td>
<td><strong>(76,627)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-Operating Revenue (Expense)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ad Valorem Taxes</td>
<td>114,303</td>
<td>114,579</td>
</tr>
<tr>
<td>Impact Fees</td>
<td>3,600</td>
<td>5,400</td>
</tr>
<tr>
<td>Interest Income</td>
<td>1,865</td>
<td>1,828</td>
</tr>
<tr>
<td><strong>Interest Expense</strong></td>
<td><strong>(43,070)</strong></td>
<td><strong>(47,536)</strong></td>
</tr>
<tr>
<td><strong>Total Non-Operating Revenue, Net</strong></td>
<td><strong>76,698</strong></td>
<td><strong>74,271</strong></td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td><strong>$127,387</strong></td>
<td><strong>$2,356</strong></td>
</tr>
</tbody>
</table>

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, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Position, Beginning of Year</td>
<td>$1,352,562</td>
<td>$1,354,918</td>
</tr>
<tr>
<td>Change in Net Position</td>
<td>127,387</td>
<td>(2,356)</td>
</tr>
<tr>
<td>Net Position, End of Year</td>
<td>$1,479,949</td>
<td>$1,352,562</td>
</tr>
</tbody>
</table>

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, 2018 and 2017

<table>
<thead>
<tr>
<th>Cash Flows from Operating Activities</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts from Customers</td>
<td>$831,692</td>
<td>$706,831</td>
</tr>
<tr>
<td>Payments to Suppliers</td>
<td>(280,932)</td>
<td>(306,436)</td>
</tr>
<tr>
<td>Payments to Employees and Payroll Taxing Agencies</td>
<td>(375,605)</td>
<td>(351,883)</td>
</tr>
<tr>
<td><strong>Net Cash Provided by Operating Activities</strong></td>
<td>175,155</td>
<td>48,512</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows from Non-Capital Financing Activities</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Receipts from Meter Deposits</td>
<td>1,813</td>
<td>2,855</td>
</tr>
<tr>
<td><strong>Net Cash Provided by Non-Capital Financing Activities</strong></td>
<td>1,813</td>
<td>2,855</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows from Capital Financing Activities</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Paid on Bonds</td>
<td>(123,000)</td>
<td>(115,000)</td>
</tr>
<tr>
<td>Interest Paid on Bonds</td>
<td>(44,615)</td>
<td>(48,960)</td>
</tr>
<tr>
<td>Proceeds from Ad Valorem Taxes</td>
<td>115,727</td>
<td>112,866</td>
</tr>
<tr>
<td>Proceeds from Impact Fees</td>
<td>3,600</td>
<td>5,400</td>
</tr>
<tr>
<td>Purchase of Capital Assets</td>
<td>(6,823)</td>
<td>(22,282)</td>
</tr>
<tr>
<td>Increase in Construction in Progress</td>
<td>(31,618)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net Cash Used in Capital Financing Activities</strong></td>
<td>(86,729)</td>
<td>(67,976)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows from Investing Activities</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Received on Investments</td>
<td>1,865</td>
<td>1,828</td>
</tr>
<tr>
<td><strong>Net Cash Provided by Investing Activities</strong></td>
<td>1,865</td>
<td>1,828</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Increase (Decrease) in Cash and Cash Equivalents</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>92,104</td>
<td>(14,781)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash and Cash Equivalents, Beginning of Year</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1,070,986</td>
<td>$1,085,767</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash and Cash Equivalents, End of Year</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1,163,090</td>
<td>$1,070,986</td>
</tr>
</tbody>
</table>

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, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Operating Income (Loss)</strong></td>
<td>$ 50,689</td>
<td>$(76,627)</td>
</tr>
<tr>
<td><strong>Adjustments to Reconcile Net Operating Income (Loss)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad Debt Expense</td>
<td>9,099</td>
<td>1,706</td>
</tr>
<tr>
<td>Depreciation</td>
<td>122,960</td>
<td>139,664</td>
</tr>
<tr>
<td>Increase in Utility Customer Receivables</td>
<td>(16,333)</td>
<td>(6,216)</td>
</tr>
<tr>
<td>Decrease (Increase) in Inventory</td>
<td>5,581</td>
<td>(12,439)</td>
</tr>
<tr>
<td>Increase in Accounts Payable</td>
<td>7,099</td>
<td>570</td>
</tr>
<tr>
<td>(Decrease) Increase in Accrued Expenses</td>
<td>(3,940)</td>
<td>1,854</td>
</tr>
<tr>
<td><strong>Net Cash Provided by Operating Activities</strong></td>
<td><strong>$ 175,155</strong></td>
<td><strong>$ 48,512</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these 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.
Note 1. Summary of Significant Accounting Policies (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.
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 $35,172 and $26,073, at December 31, 2018 and 2017, 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:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and Building Improv.</td>
<td>10 - 15</td>
<td>Straight-Line</td>
</tr>
<tr>
<td>Machinery and Equipment (Plant)</td>
<td>5 - 40</td>
<td>Straight-Line</td>
</tr>
<tr>
<td>Water Meters</td>
<td>10 - 30</td>
<td>Straight-Line</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>5</td>
<td>Straight-Line</td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>5 - 7</td>
<td>Straight-Line</td>
</tr>
<tr>
<td>Software</td>
<td>5</td>
<td>Straight-Line</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>10</td>
<td>Straight-Line</td>
</tr>
</tbody>
</table>

Depreciation and amortization expenses amounted to $122,960 and $139,664, for the years ended December 31, 2018 and 2017, 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.
Note 1. Summary of Significant Accounting Policies (Continued)

Recent 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, 2018, the District had $305,038 in non-interest-bearing deposits. These deposits are secured from risk by $250,000 of federal deposit insurance and $55,038 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, 2018, the District had $883,086 in interest-bearing deposits. These deposits are secured from risk by $250,000 of federal deposit insurance and $633,086 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, 2018 and 2017, cash and cash equivalents for both current and restricted assets consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$175,560</td>
<td>$261,263</td>
</tr>
<tr>
<td>Restricted</td>
<td>987,530</td>
<td>809,723</td>
</tr>
<tr>
<td><strong>Cash on Hand and in Bank</strong></td>
<td><strong>$1,163,090</strong></td>
<td><strong>$1,070,986</strong></td>
</tr>
</tbody>
</table>
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 bonds were paid off during 2018, so those restrictions went away.

Restricted cash and cash equivalents are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve Funds - Revenue Bonds</td>
<td>$ -</td>
<td>$ 113,809</td>
</tr>
<tr>
<td>Reserve Funds - Public Improvement Bonds</td>
<td>198,354</td>
<td>203,779</td>
</tr>
<tr>
<td>Proceeds of Public Improvement Bonds</td>
<td>96,242</td>
<td>127,355</td>
</tr>
<tr>
<td>Meter Deposits</td>
<td>103,316</td>
<td>99,378</td>
</tr>
<tr>
<td>Reserve for Impact Fees</td>
<td>187,098</td>
<td>-</td>
</tr>
<tr>
<td>Board-Designated Reserve For Replacement</td>
<td>402,520</td>
<td>265,402</td>
</tr>
<tr>
<td><strong>Total Restricted Assets</strong></td>
<td><strong>$ 987,530</strong></td>
<td><strong>$ 809,723</strong></td>
</tr>
</tbody>
</table>

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, 2018:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Cash and Investments</td>
<td>$ 203,779</td>
</tr>
<tr>
<td>Plus: Ad Valorem Tax Receipts</td>
<td>115,727</td>
</tr>
<tr>
<td>Subtotal</td>
<td>319,506</td>
</tr>
<tr>
<td>Less: Interest Payments on Bonds</td>
<td>(41,152)</td>
</tr>
<tr>
<td>Principal Payments on Bonds</td>
<td>(80,000)</td>
</tr>
<tr>
<td><strong>Ending Cash and Investments</strong></td>
<td><strong>$ 198,354</strong></td>
</tr>
</tbody>
</table>

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 reevaluation of all property is required to be completed no less than every four years. The last reevaluation was completed in 2016.
Note 5. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

<table>
<thead>
<tr>
<th>December 31, 2018</th>
<th>Beginning Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Assets Not Being Depreciated</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$88,379</td>
<td>$ -</td>
<td>$ -</td>
<td>$88,379</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>-</td>
<td>31,618</td>
<td>-</td>
<td>31,618</td>
</tr>
<tr>
<td><strong>Total Capital Assets Not Being Depreciated</strong></td>
<td>88,379</td>
<td>31,618</td>
<td>-</td>
<td>119,997</td>
</tr>
<tr>
<td><strong>Capital Assets Being Depreciated</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>20,060</td>
<td>-</td>
<td>-</td>
<td>20,060</td>
</tr>
<tr>
<td>Building Improvements</td>
<td>39,432</td>
<td>-</td>
<td>-</td>
<td>39,432</td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td>2,335,467</td>
<td>6,823</td>
<td>-</td>
<td>2,342,290</td>
</tr>
<tr>
<td>Water Meters</td>
<td>547,923</td>
<td>-</td>
<td>-</td>
<td>547,923</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>14,060</td>
<td>-</td>
<td>-</td>
<td>14,060</td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>94,170</td>
<td>-</td>
<td>-</td>
<td>94,170</td>
</tr>
<tr>
<td>Software</td>
<td>53,836</td>
<td>-</td>
<td>-</td>
<td>53,836</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>8,250</td>
<td>-</td>
<td>-</td>
<td>8,250</td>
</tr>
<tr>
<td><strong>Total Capital Assets Being Depreciated</strong></td>
<td>3,113,198</td>
<td>6,823</td>
<td>-</td>
<td>3,120,021</td>
</tr>
<tr>
<td><strong>Less Accumulated Depreciation for:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>(20,060)</td>
<td>-</td>
<td>-</td>
<td>(20,060)</td>
</tr>
<tr>
<td>Building Improvements</td>
<td>(21,685)</td>
<td>(3,943)</td>
<td>-</td>
<td>(25,628)</td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td>(985,354)</td>
<td>(66,982)</td>
<td>-</td>
<td>(1,052,336)</td>
</tr>
<tr>
<td>Water Meters</td>
<td>(413,802)</td>
<td>(33,249)</td>
<td>-</td>
<td>(447,051)</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>(9,156)</td>
<td>(1,456)</td>
<td>-</td>
<td>(10,612)</td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>(43,847)</td>
<td>(11,803)</td>
<td>-</td>
<td>(55,650)</td>
</tr>
<tr>
<td>Software</td>
<td>(35,993)</td>
<td>(4,701)</td>
<td>-</td>
<td>(40,694)</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>(3,714)</td>
<td>(826)</td>
<td>-</td>
<td>(4,540)</td>
</tr>
<tr>
<td><strong>Total Accumulated Depreciation</strong></td>
<td>(1,533,611)</td>
<td>(122,960)</td>
<td>-</td>
<td>(1,656,571)</td>
</tr>
<tr>
<td><strong>Total Capital Assets Being Depreciated, Net</strong></td>
<td>1,579,587</td>
<td>(116,137)</td>
<td>-</td>
<td>1,463,450</td>
</tr>
<tr>
<td><strong>Total Capital Assets, Net</strong></td>
<td>$1,667,966</td>
<td>$(84,519)</td>
<td>$ -</td>
<td>$1,583,447</td>
</tr>
</tbody>
</table>
Note 6. Long-Term Debt

The following is a summary of bond transactions of the District for the years ended December 31, 2018 and 2017:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue Bonds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds Payable at January 1st</td>
<td>$43,000</td>
<td>$83,000</td>
</tr>
<tr>
<td>Bonds Retired</td>
<td>(43,000)</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Bonds Payable at December 31st</td>
<td>$-</td>
<td>$43,000</td>
</tr>
<tr>
<td><strong>Public Improvement Bonds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds Payable at January 1st</td>
<td>$1,415,000</td>
<td>$1,490,000</td>
</tr>
<tr>
<td>Bonds Retired</td>
<td>(80,000)</td>
<td>(75,000)</td>
</tr>
<tr>
<td>Bonds Payable at December 31st</td>
<td>$1,335,000</td>
<td>$1,415,000</td>
</tr>
</tbody>
</table>

The following is a description of the bonds of the District for the years ended December 31, 2018 and 2017:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue Bonds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$500,000 Water Revenue Bonds dated January 7, 1999; due in annual principal installments of $11,000 - $43,000, plus semi-annual interest payments through September 1, 2018, with interest at 4.10% to 5.90%, collateralized by water revenues.</td>
<td>$-</td>
<td>$43,000</td>
</tr>
<tr>
<td><strong>Public Improvement Bonds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$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.</td>
<td>$530,000</td>
<td>$570,000</td>
</tr>
<tr>
<td>$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.</td>
<td>805,000</td>
<td>845,000</td>
</tr>
<tr>
<td><strong>Total Public Improvement Bonds</strong></td>
<td>$1,335,000</td>
<td>$1,415,000</td>
</tr>
</tbody>
</table>
Note 6. Long-Term Debt (Continued)

The annual requirements to amortize all bonds outstanding as of December 31, 2018, including interest payments, are as follows:

<table>
<thead>
<tr>
<th>Year Ending December 31,</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$80,000</td>
<td>$39,033</td>
<td>$119,033</td>
</tr>
<tr>
<td>2020</td>
<td>$85,000</td>
<td>$36,768</td>
<td>$121,768</td>
</tr>
<tr>
<td>2021</td>
<td>$90,000</td>
<td>$34,268</td>
<td>$124,268</td>
</tr>
<tr>
<td>2022</td>
<td>$95,000</td>
<td>$31,525</td>
<td>$126,525</td>
</tr>
<tr>
<td>2023</td>
<td>$95,000</td>
<td>$28,625</td>
<td>$123,625</td>
</tr>
<tr>
<td>2024 to 2028</td>
<td>$570,000</td>
<td>$90,316</td>
<td>$660,316</td>
</tr>
<tr>
<td>2029 to 2033</td>
<td>$320,000</td>
<td>$21,113</td>
<td>$341,113</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,335,000</strong></td>
<td><strong>$281,648</strong></td>
<td><strong>$1,616,648</strong></td>
</tr>
</tbody>
</table>

Note 7. Net Position

Net position for the years ended December 31, 2018 and 2017, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Investment in Capital Assets</td>
<td>$424,687</td>
<td>$460,322</td>
</tr>
<tr>
<td>Restricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted for Revenue Bonds</td>
<td>-</td>
<td>69,963</td>
</tr>
<tr>
<td>Restricted for Public Improvement Bonds</td>
<td>104,986</td>
<td>109,712</td>
</tr>
<tr>
<td>Restricted for Capital Improvements</td>
<td>187,098</td>
<td>-</td>
</tr>
<tr>
<td>Restricted for Meter Deposits</td>
<td>2,125</td>
<td>-</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>761,053</td>
<td>712,565</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,479,949</strong></td>
<td><strong>$1,352,562</strong></td>
</tr>
</tbody>
</table>
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 $16,933 and $15,210 for the years ended December 31, 2018 and 2017, respectively. The following are the scheduled future minimum rental payments under the new lease:

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$16,800</td>
</tr>
<tr>
<td>2020</td>
<td>16,800</td>
</tr>
<tr>
<td>2021</td>
<td>16,800</td>
</tr>
<tr>
<td>2022</td>
<td>16,800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$67,200</strong></td>
</tr>
</tbody>
</table>

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, 2018 and 2017:

**Residential**

<table>
<thead>
<tr>
<th>Volume</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 2,000 gallons</td>
<td>$18.00</td>
</tr>
<tr>
<td>Over 2,000 gallons</td>
<td>$3.75 per 1,000 gallons</td>
</tr>
</tbody>
</table>

**Commercial**

<table>
<thead>
<tr>
<th>Volume</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 2,000 gallons</td>
<td>$30.00</td>
</tr>
<tr>
<td>Over 2,000 gallons</td>
<td>$4.00 per 1,000 gallons</td>
</tr>
</tbody>
</table>

During 2018, the District served 1,826 customers.
Note 10. Tax Abatement

The District is affected by the Louisiana Industrial Ad Valorem Tax Exemption Program (ITEP), which is an original state incentive program which offers an attractive tax incentive for manufacturers within the state. The program abates, up to ten years, local property taxes (ad valorem) on a manufacturer’s new investment and annual capitalized additions related to the manufacturing site. This exemption is granted per contract with the Louisiana Department of Economic Development and will specify the buildings and/or personal property items covered under the exemption. For the year ended December 31, 2018, the District has forgone $6,338 in ad valorem taxes due to this abatement program.

Note 11. Board Members' Per Diem Payments

The following is a schedule of fees paid to board members during the years ended December 31, 2018 and 2017:

<table>
<thead>
<tr>
<th>Name</th>
<th>Address</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pierre Fabre, Vice-President</td>
<td>73460 Military Road</td>
<td>$1,380</td>
<td>$1,260</td>
</tr>
<tr>
<td></td>
<td>Covington, LA 70435</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lorraine Saba, Secretary-Treasurer</td>
<td>100 Magnolia Gardens Drive</td>
<td>4,830</td>
<td>4,650</td>
</tr>
<tr>
<td></td>
<td>Covington, LA 70435</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Julie Huhn, Commissioner</td>
<td>73482 Military Road</td>
<td>1,080</td>
<td>1,140</td>
</tr>
<tr>
<td></td>
<td>Covington, LA 70435</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michael Stubbs, President</td>
<td>20470 Stubbs Lane</td>
<td>1,380</td>
<td>1,320</td>
</tr>
<tr>
<td></td>
<td>Covington, LA 70435</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monique Stubbs, Commissioner</td>
<td>73181 Artesian Drive</td>
<td>1,080</td>
<td>1,260</td>
</tr>
<tr>
<td></td>
<td>Covington, LA 70435</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$9,750</strong></td>
<td><strong>$9,630</strong></td>
</tr>
</tbody>
</table>
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, 2018

Agency Head  
A.J. Cigali, General Manager

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$34,500</td>
</tr>
<tr>
<td>Benefits - Insurance</td>
<td>$24,349</td>
</tr>
<tr>
<td>Benefits - Retirement</td>
<td>$0</td>
</tr>
<tr>
<td>Benefits - Other</td>
<td>$0</td>
</tr>
<tr>
<td>Car Allowance</td>
<td>$0</td>
</tr>
<tr>
<td>Vehicle Provided by Government</td>
<td>$0</td>
</tr>
<tr>
<td>Per Diem</td>
<td>$0</td>
</tr>
<tr>
<td>Reimbursements</td>
<td>$0</td>
</tr>
<tr>
<td>Travel</td>
<td>$0</td>
</tr>
<tr>
<td>Registration Fees</td>
<td>$0</td>
</tr>
<tr>
<td>Conference Travel</td>
<td>$0</td>
</tr>
<tr>
<td>Continuing Professional Education Fees</td>
<td>$0</td>
</tr>
<tr>
<td>Housing</td>
<td>$0</td>
</tr>
<tr>
<td>Unvouchered Expenses</td>
<td>$0</td>
</tr>
<tr>
<td>Special Meals</td>
<td>$0</td>
</tr>
</tbody>
</table>

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, 2018, 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 24, 2019.

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 24, 2019
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, 2018 - December 31, 2018

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, 2018 through December 31, 2018, 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:

**Credit Cards/Debit Cards/Fuel Cards/P-Cards (follow-up)**

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 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

   a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder.

   Results: For all monthly or combined statements for each card tested, we observed 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.

**Board (or Finance Committee, if applicable) for Proprietary Funds**

1. Obtain and inspect the entity’s written policies and procedures over budgeting and observe that they address preparing, adopting, monitoring, and amending the budget.

   Results: The District does not have written policies and procedures over budgeting.

2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board’s enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:

   a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board’s enabling legislation, charter, bylaws, or other equivalent document.

   b) Observe that the minutes referenced or included monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds.

   Results: We observed that the board/finance committee met with a quorum at least monthly and that the minutes included monthly financial statements for the major proprietary funds.

**Payroll and Personnel**

1. Obtain and inspect the entity’s written policies and procedures over payroll/personnel and observe that they address (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

   Results: The District does not have written policies and procedures over payroll processing.

2. Obtain a listing of employees/elected officials employed during the fiscal period and management’s representation that the listing is complete. Select all employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

   Results: Obtained the listing of employees/elected officials and management’s representation that the listing is complete. Agreed all employees/elected officials’ paid salaries to authorized salaries/pay rates in the personnel files.
3. Randomly select one pay period during the fiscal period. For the employees/officials selected under #2 above, obtain attendance records and leave documentation for the pay period, and:

a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory).

b) Observe that supervisors approved the attendance and leave of the selected employees/officials.

c) Observe that any leave accrued or taken during the pay period is reflected in the entity’s cumulative leave records.

Results: In two cases, the employees’ vacation was not documented and no documentation existed to support that the employees’ vacations were approved by a supervisor.

4. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management’s representation that the list is complete. Select all employees/officials, obtain related documentation of the hours and pay rates used in management’s termination payment calculations, agree the hours to the employee/officials’ cumulative leave records, and agree the pay rates to the employee/officials’ authorized pay rates in the employee/officials’ personnel files.

Results: Obtained the listing and management’s representation that it is complete. Obtained related documentation of the hours and pay rates used in the termination payment calculation, agreed the hours to the employee’s cumulative leave records, and agreed the pay rates to the employee’s authorized pay rates in the employee’s personnel files.

5. Obtain management’s representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers’ compensation premiums have been paid, and associated forms have been filed, by required deadlines.

Results: Obtained management’s representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers’ compensation premiums have been paid, and associated forms have been filed, by required deadlines.

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 Professional Accounting Corporation

Covington, LA
May 24, 2019
Mr. Daryl Purpera
Louisiana Legislative Auditor
1600 N 3rd St.
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Act 774 Agreed-Upon Procedures

The management of the St. Tammany Parish Water District No. 2 wishes to provide the following responses relative to the results of the 2018 Act 774 agreed-upon procedures engagement:

1) In response to the results of the Board for Proprietary Funds section, item #1, management will ensure that their policies and procedures over budgeting will be put in writing.

2) In response to the results of the Payroll and Personnel section, item #1, management will ensure that their policies and procedures over payroll processing will be put in writing.

3) In response to the results of the Payroll and Personnel section, items #3a and 3b, Management will review its policy over employee leave and strengthen controls to ensure proper documentation and approval exist for employee vacations.

Sincerely,

A.J. Cigali
General Manager