

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

Annual Financial Statements

December 31, 2023 and 2022



Contents

Independent Auditor's Report	1 - 3
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Required Supplementary Information

Management's Discussion and Analysis	5 - 7
--------------------------------------	-------

Basic Financial Statements

Statements of Net Position	9 - 10
Statements of Revenues and Expenses	11
Statements of Changes in Net Position	12
Statements of Cash Flows	13 - 14
Notes to Financial Statements	15 - 25

Other Supplementary Information

Schedule of Compensation, Benefits, and Other Payments to Agency Head	27
Schedule of Compensation Paid to Board Members	28

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*

29 - 30

Schedule of Findings and Responses	31
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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, 2023 and 2022, 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, 2023 and 2022, 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 principles 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.

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 are 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 June 2, 2024 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
June 2, 2024

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, 2023. 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 2023 by \$2,219,000 which represents a 10% increase from last fiscal year. Of this amount, \$1,045,714 (unrestricted net position) may be used to meet the District's ongoing obligations to its users.

The District's operating revenue increased by \$130,881 (or 14%). Operating expenses increased by \$16,971 (or 2%). As a result, the District had net operating income of \$87,454 for 2023 as compared to a net operating loss of \$(26,456) for 2022.

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

	2023	2022
Current and Restricted Assets	\$ 1,410,802	\$ 1,716,873
Capital Assets, Net	1,810,677	1,509,531
Other Assets	66,373	80,048
Total Assets	3,287,852	3,306,452
Current and Other Liabilities	282,416	393,102
Long-Term Debt Outstanding	786,436	896,173
Total Liabilities	1,068,852	1,289,275
Net Position		
Net Investment in Capital Assets	980,677	679,531
Restricted	192,609	195,799
Unrestricted	1,045,714	1,141,847
Total Net Position	\$ 2,219,000	\$ 2,017,177

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 \$201,823 from December 31, 2022 to December 31, 2023.

Summary Statements of Revenues and Expenses

	2023	2022
Operating Revenue	\$ 1,047,887	\$ 917,006
Operating Expenses	960,433	943,462
Net Operating Income (Loss)	87,454	(26,456)
Non-Operating Revenue, Net	114,369	108,213
Change in Net Position	\$ 201,823	\$ 81,757

**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, 2023, the District had \$1,810,676, 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 increase (including additions and deductions) of \$301,146 or 20%, over last year. This increase was due to current year purchases, current year depreciation, and changes in depreciable lives for certain assets.

	2023	2022
Land	\$ 88,379	\$ 88,379
Plant and Equipment	3,349,688	3,366,265
Less: Accumulated Depreciation	(1,627,390)	(1,945,113)
Total Capital Assets	<u>\$ 1,810,677</u>	<u>\$ 1,509,531</u>

Debt

The District had \$830,000 in bonds outstanding at December 31, 2023, compared to \$915,000 last year. A summary of this debt is shown in the table below:

	2023	2022
Public Improvement Bonds	\$ 830,000	\$ 915,000
Total Debt	<u>\$ 830,000</u>	<u>\$ 915,000</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, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 225,833	\$ 284,826
Ad Valorem Taxes Receivable, Net of Allowance of \$2,409 for 2023 and \$2,359 for 2022	110,125	113,451
Utility Customer Receivables, Net of Allowance of \$66,198 for 2023 and \$53,488 for 2022	48,978	72,820
Inventory	66,399	51,959
Total Current Assets	451,335	523,056
Designated and Restricted Assets		
Cash and Cash Equivalents, Designated	545,657	789,798
Cash and Cash Equivalents, Restricted	413,810	404,019
Total Designated and Restricted Assets	959,467	1,193,817
Capital Assets		
Plant and Equipment at Cost, Net	1,722,298	1,421,152
Land	88,379	88,379
Total Capital Assets	1,810,677	1,509,531
Other Assets		
Right-to-Use Asset - Operating Lease, Net	66,173	79,848
Utility Deposits	200	200
Total Other Assets	66,373	80,048
Total Assets	3,287,852	3,306,452

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, 2023 and 2022

	2023	2022
Liabilities		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	39,462	148,495
Accrued Expenses	7,016	22,712
Lease Obligation, Current Portion	14,737	13,675
	<u>61,215</u>	<u>184,882</u>
Total Current Liabilities (Payable from Unrestricted Assets)		
	<u>61,215</u>	<u>184,882</u>
Current Liabilities (Payable from Restricted Assets)		
Accrued Interest on Bonds	6,312	6,857
Meter Deposits	119,889	116,363
Current Maturities of Bonds Payable	95,000	85,000
	<u>221,201</u>	<u>208,220</u>
Total Current Liabilities (Payable from Restricted Assets)		
	<u>221,201</u>	<u>208,220</u>
Long-Term Liabilities		
Lease Obligation, Less Current portion	51,436	66,173
Public Improvement Bonds Payable, Less Current Portion	735,000	830,000
	<u>786,436</u>	<u>896,173</u>
Total Long-Term Liabilities		
	<u>786,436</u>	<u>896,173</u>
Total Liabilities		
	<u>1,068,852</u>	<u>1,289,275</u>
Net Position		
Net Investment in Capital Assets	980,677	594,531
Restricted	192,609	195,799
Unrestricted	1,045,714	1,226,847
	<u>1,045,714</u>	<u>1,226,847</u>
Total Net Position		
	<u>\$ 2,219,000</u>	<u>\$ 2,017,177</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, 2023 and 2022

	2023	2022
Operating Revenue		
Water Revenue	\$ 966,155	\$ 845,721
Tap and Connect Fees	72,580	63,635
Other Revenue	9,152	7,650
Total Operating Revenue	1,047,887	917,006
Operating Expenses		
Salaries	374,853	346,901
Depreciation	124,856	174,136
Employee Benefits	117,196	104,067
Legal and Professional	48,254	40,386
Repairs and Maintenance	40,634	36,040
Utilities and Telephone	39,982	43,633
Insurance	39,819	38,015
Operating Supplies	37,785	49,194
Other	34,537	16,627
Payroll Taxes	28,525	25,492
Lease Expense, Amortization	13,675	10,949
Bad Debt Expense	12,710	9,779
Director Fees	12,560	9,870
Truck Expenses	11,918	14,303
Postage and Office Supplies	8,411	9,670
Parish Assessment Expense	6,783	7,284
Lease Expense, Interest	5,525	6,051
Uniforms	1,222	839
Travel, Conferences, and Conventions	1,188	226
Total Operating Expenses	960,433	943,462
Net Operating Income (Loss)	87,454	(26,456)
Non-Operating Revenue (Expense)		
Ad Valorem Taxes	119,992	117,060
Impact Fees	11,400	9,600
Interest Income	2,185	2,416
Interest Expense	(19,208)	(20,863)
Total Non-Operating Revenue, Net	114,369	108,213
Changes in Net Position	\$ 201,823	\$ 81,757

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, 2023 and 2022**

	2023	2022
Net Position, Beginning of Year	\$ 2,017,177	\$ 1,935,420
Changes in Net Position	<u>201,823</u>	<u>81,757</u>
Net Position, End of Year	<u>\$ 2,219,000</u>	<u>\$ 2,017,177</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, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Receipts from Customers	\$ 1,071,729	\$ 908,544
Payments to Suppliers	(460,415)	(196,759)
Payments to Employees and Payroll Taxing Agencies	(507,745)	(447,097)
	<u>103,569</u>	<u>264,688</u>
Net Cash Provided by Operating Activities		
Cash Flows from Non-Capital Financing Activities		
Net Receipts from Meter Deposits	3,526	6,968
	<u>3,526</u>	<u>6,968</u>
Net Cash Provided by Non-Capital Financing Activities		
Cash Flows from Capital Financing Activities		
Principal Paid on Bonds	(85,000)	(90,000)
Interest Paid on Bonds	(19,753)	(21,448)
Proceeds from Ad Valorem Taxes	123,318	130,065
Proceeds from Impact Fees	11,400	9,600
Purchase of Capital Assets, Net	(432,586)	(333,945)
	<u>(402,621)</u>	<u>(305,728)</u>
Net Cash Used in Capital Financing Activities		
Cash Flows from Investing Activities		
Interest Received on Investments	2,183	2,416
	<u>2,183</u>	<u>2,416</u>
Net Cash Provided by Investing Activities		
Net Decrease in Cash and Cash Equivalents	(293,343)	(31,656)
Cash and Cash Equivalents, Beginning of Year	1,478,643	1,510,299
Cash and Cash Equivalents, End of Year	<u>\$ 1,185,300</u>	<u>\$ 1,478,643</u>
Unrestricted Cash and Cash Equivalents	\$ 225,833	\$ 284,826
Restricted Cash and Cash Equivalents	<u>959,467</u>	<u>1,193,817</u>
Total Cash and Cash Equivalents	<u>\$ 1,185,300</u>	<u>\$ 1,478,643</u>

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

ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2023 and 2022

	2023	2022
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by Operating Activities		
Net Operating Income (Loss)	\$ 87,454	\$ (26,456)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities		
Bad Debt Expense	12,710	9,779
Depreciation	124,856	174,136
Loss on Disposal	6,586	
Decrease (Increase) in Utility Customer Receivables	11,132	(18,241)
(Increase) in Inventory	(14,440)	(11,431)
(Decrease) Increase in Accounts Payable	(109,033)	133,030
(Decrease) Increase in Accrued Expenses	(15,696)	3,871
Net Cash Provided by Operating Activities	\$ 103,569	\$ 264,688

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 \$66,198 and \$53,488 at December 31, 2023 and 2022, 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 \$124,856 and \$174,136 for the years ended December 31, 2023 and 2022, 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.

Leases

The District is a lessee for a noncancellable lease of a building. It recognizes a lease liability and an intangible right-to-use lease asset in the financial statements. At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of the lease payments made. The lease asset is initially measured at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Recent Accounting Pronouncements - Adopted

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements. The Statement was adopted during the year ended December 31, 2023 and did not have an effect on the District's 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.

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

Notes to Financial Statements

Note 2. Cash and Cash Equivalents (Continued)

At December 31, 2023, the District had \$204,792 in non-interest-bearing deposits. These deposits are secured from risk by \$250,000 of federal deposit insurance. At December 31, 2023, the District had \$996,293 in interest-bearing deposits. These deposits are secured from risk by \$250,000 of federal deposit insurance and \$746,293 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, 2023 and 2022, cash and cash equivalents for both current and restricted assets consisted of the following:

	2023	2022
Unrestricted	\$ 225,833	\$ 284,826
Restricted	959,467	1,193,817
Cash on Hand and in Bank	\$ 1,185,300	\$ 1,478,643

Note 3. Restricted Assets

Restricted cash and cash equivalents were as follows:

	2023	2022
Reserve Funds - Public Improvement Bonds	\$ 78,098	\$ 59,532
Proceeds of Public Improvement Bonds	-	-
Meter Deposits	121,168	117,826
Reserve for Impact Fees	214,544	226,661
Board-Designated Reserve	545,657	789,798
Total Restricted Assets	\$ 959,467	\$ 1,193,817

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

Notes to Financial Statements

Note 4. Ad Valorem Taxes

The District is authorized to levy a special ad valorem tax of 4.03 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, 2023:

Beginning Cash and Investments	\$ 59,532
Plus:	
Ad Valorem Tax Receipts	<u>123,319</u>
Subtotal	182,851
Less:	
Interest Payments on Bonds	(19,753)
Principal Payments on Bonds	<u>(85,000)</u>
Ending Cash and Investments	<u><u>\$ 78,098</u></u>

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, 2023 was as follows:

December 31, 2023	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	15,755	-	35,815
Building Improvements	39,432	-	-	39,432
Machinery and Equipment	2,437,733	11,193	-	2,448,926
Water Meters	703,832	322,570	(403,580)	622,822
Office Equipment	13,960	-	-	13,960
Transportation Equipment	94,170	83,068	-	177,238
Software	48,831	-	(45,586)	3,245
Leasehold Improvements	8,250	-	-	8,250
Total Capital Assets Being Depreciated	3,366,268	432,586	(449,166)	3,349,688
Less Accumulated Depreciation for:				
Building	(20,060)	(788)	-	(20,848)
Building Improvements	(39,432)	-	-	(39,432)
Machinery and Equipment	(1,322,935)	(71,541)	-	(1,394,476)
Water Meters	(405,204)	(39,555)	396,994	(47,765)
Office Equipment	(13,960)	-	-	(13,960)
Transportation Equipment	(88,192)	(11,911)	-	(100,103)
Software	(47,494)	(649)	45,587	(2,556)
Leasehold Improvements	(7,838)	(412)	-	(8,250)
Total Accumulated Depreciation	(1,945,115)	(124,856)	442,581	(1,627,390)
Total Capital Assets Being Depreciated, Net	1,421,153	307,730	(6,585)	1,722,298
Total Capital Assets, Net	\$ 1,509,532	\$ 307,730	\$ (6,585)	\$ 1,810,677

**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, 2023 and 2022:

	2023	2022
Public Improvement Bonds		
Bonds Payable at January 1 st	\$ 915,000	\$ 1,005,000
Bonds Retired	<u>(85,000)</u>	<u>(90,000)</u>
Bonds Payable at December 31st	<u>\$ 830,000</u>	<u>\$ 915,000</u>

The following is a description of the bonds of the District for the years ended December 31, 2023 and 2022:

	2023	2022
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.	\$ 590,000	\$ 635,000
\$410,000 General Obligation Refunding Bonds dated January 7, 2020; due in annual principal installments of \$40,000 - \$50,000, plus semi-annual interest payments through March 1, 2028, with interest at 2.40%, collateralized by ad valorem taxes.	<u>240,000</u>	<u>280,000</u>
Total Public Improvement Bonds	<u>\$ 830,000</u>	<u>\$ 915,000</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, 2023, including interest payments, are as follows:

Year Ending December 31,	Public Improvement Bonds		
	Principal	Interest	Total
2024	\$ 95,000	\$ 17,958	\$ 112,958
2025	95,000	16,003	111,003
2026	105,000	13,875	118,875
2027	105,000	11,575	116,575
2028	110,000	9,150	119,150
2029-2033	320,000	21,113	341,113
Total	\$ 830,000	\$ 89,674	\$ 919,674

Note 7. Net Position

Net position for the years ended December 31, 2023 and 2022 consisted of the following:

	2023	2022
Net Investment in Capital Assets	\$ 980,677	\$ 679,531
Restricted		
Restricted for Public Improvement Bonds	(23,214)	(32,325)
Restricted for Capital Improvements	214,544	226,661
Restricted for Meter Deposits	1,279	1,463
Unrestricted	1,045,714	1,141,847
Total	\$ 2,219,000	\$ 2,017,177

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

Notes to Financial Statements

Note 8. Lease

The District has an operating lease agreement for office space in Covington, Louisiana. The District is currently operating under a five-year renewal on this lease which was entered into on June 22, 2022, with monthly payments of \$1,600 beginning January 1, 2023. The District utilized the United States Prime Rate at the date of lease commencement of 7.5% for calculation of the lease liability. Lease amortization expense recorded under this lease totaled \$13,675 and \$10,949 for the years ended December 31, 2023 and 2022, respectively. Lease interest expense recorded under this lease totaled \$5,525 and \$6,051 for the years ended December 31, 2023 and 2022, respectively.

The following are the scheduled future minimum rental payments under this lease:

Year Ending December 31,	Undiscounted		
	Cash Flows	Principal	Interest
2024	\$ 19,200	\$ 14,737	\$ 4,463
2025	19,200	15,881	3,319
2026	19,200	17,114	2,086
2027	19,200	18,441	759
Total	\$ 76,800	\$ 66,173	\$ 10,627

The following is a summary of the lease asset and obligation as of December 31, 2023:

	2023
Right-to-Use Asset, Beginning	\$ 79,848
Less: Amortization	(13,675)
Right-to-Use Asset, Ending	\$ 66,173
Operating Lease Liability, Beginning	\$ 79,848
Less: Principal Payments	(13,675)
Operating Lease Liability, Ending	66,173
Less: Amounts Due in One Year	(14,737)
Operating Lease Liability, Net of Current Portion	\$ 51,436

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

Notes to Financial Statements

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, 2023 and 2022:

Residential

First 2,000 gallons	\$ 21.00
Over 2,000 gallons	\$ 4.75 per 1,000 gallons

Commercial

First 2,000 gallons	\$ 33.00
Over 2,000 gallons	\$ 5.00 per 1,000 gallons

During 2023 and 2022, the District served approximately 1,884 and 1,869 customers, respectively.

OTHER SUPPLEMENTARY INFORMATION

ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Schedule of Compensation, Benefits, and Other Payments
to Agency Head
For the Year Ended December 31, 2023

Agency Head
A.J. Cigali, General Manager

Purpose	Amount
Salary	\$41,701
Benefits - Insurance	\$29,297
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, 2023 and 2022**

	2023	2022
Michael Stubbs, President 20470 Stubbs Lane Covington, LA 70435	\$ 1,760	\$ 1,340
Pierre Fabre, Vice-President 73460 Military Road Covington, LA 70435	1,760	1,340
Lorraine Saba, Secretary-Treasurer 100 Magnolia Gardens Drive Covington, LA 70435	5,360	4,730
Julie Huhn, Commissioner 73482 Military Road Covington, LA 70435	1,760	1,280
Monique Stubbs, Commissioner 73181 Artesian Drive Covington, LA 70435	1,920	1,180
Total	\$ 12,560	\$ 9,870

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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 2, 2024.

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 handwritten signature in cursive script that reads "LaPorte".

A Professional Accounting Corporation

Covington, LA
June 2, 2024

**ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Schedule of Findings and Responses
For the Year Ended December 31, 2023**

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, 2023 - December 31, 2023

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 in the Louisiana Legislative Auditor's (LLA's) Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period from January 1, 2023 through December 31, 2023. St. Tammany Parish Waterworks District No. 2's (the District) management is responsible for those C/C areas identified in the SAUPs.

The District 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 in LLA's SAUPs for the fiscal period January 1, 2023 through December 31, 2023. Additionally, 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 the 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:

1) Written Policies and Procedures

- A. Obtain and inspect the entity's written policies and procedures and observe whether they address each of the following categories and subcategories if applicable to public funds and the entity's operations:
- i. ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.
 - ii. ***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.

- iii. **Disbursements**, including processing, reviewing, and approving.
- iv. **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).
- v. **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 rates of pay or approval and maintenance of pay rate schedules.
- vi. **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- vii. **Travel and Expense Reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- viii. **Credit Cards (and debit cards, fuel cards, purchase 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).
- ix. **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.
- x. **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.
- xi. **Information Technology Disaster Recovery/Business Continuity**, including (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.
- xii. **Prevention of Sexual Harassment**, including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting.

Results: No exceptions noted.

2) **Board or Finance Committee**

- A. 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:
- i. 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.
 - ii. For those entities reporting on the governmental accounting model, observe whether the minutes referenced or included monthly budget-to-actual comparisons on the general fund, quarterly budget-to-actual, at a minimum, on proprietary funds, and semi-annual budget-to-actual, at a minimum, on all special revenue funds. *Alternatively, for those entities reporting on the not-for-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*
 - iii. For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.
 - iv. Observe whether the board/finance committee received written updates of the progress of resolving audit finding(s), according to management's corrective action plan at each meeting until the findings are considered fully resolved.

Results: No exceptions noted.

3) **Bank Reconciliations**

- A. Obtain a listing of entity bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:
- i. Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated or electronically logged);
 - ii. Bank reconciliations include written evidence that a member of management or a board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and
 - iii. Management has documentation reflecting it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Results: No exceptions noted.

4) Collections (excluding electronic funds transfers)

- A. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).
- B. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (e.g., 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if there are no written policies or procedures, then inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:
 - i. Employees responsible for cash collections do not share cash drawers/registers;
 - ii. Each employee responsible for collecting cash is not also responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g., pre-numbered receipts) to the deposit;
 - iii. Each employee responsible for collecting cash is not also responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit; and
 - iv. The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, is (are) not also responsible for collecting cash, unless another employee/official verifies the reconciliation.
- C. Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe that the bond or insurance policy for theft was in force during the fiscal period.
- D. Randomly select two deposit dates for each of the 5 bank accounts selected for Bank Reconciliations procedure #3A (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternatively, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:
 - i. Observe that receipts are sequentially pre-numbered.
 - ii. Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
 - iii. Trace the deposit slip total to the actual deposit per the bank statement.
 - iv. Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100 and the cash is stored securely in a locked safe or drawer).
 - v. Trace the actual deposit per the bank statement to the general ledger.

Results: No exceptions noted.

5) Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

- A. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).
- B. For each location selected under procedure #5A above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, then inquire of employees about their job duties), and observe that job duties are properly segregated such that:
- i. At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order or making the purchase;
 - ii. At least two employees are involved in processing and approving payments to vendors;
 - iii. The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files;
 - iv. Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments; and
 - v. Only employees/officials authorized to sign checks approve the electronic disbursement (release) of funds, whether through automated clearinghouse (ACH), electronic funds transfer (EFT), wire transfer, or some other electronic means.

[Note: Findings related to controls that constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality) should not be reported.]

- C. For each location selected under procedure #5A above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction, and:
- i. Observe whether the disbursement, whether by paper or electronic means, matched the related original itemized invoice and supporting documentation indicates that deliverables included on the invoice were received by the entity, and:
 - ii. Observe whether the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under procedure #5B above, as applicable.

- D. Using the entity's main operating account and the month selected in Bank Reconciliations procedure #3A, randomly select 5 non-payroll-related electronic disbursements (or all electronic disbursements if less than 5) and observe that each electronic disbursement was (a) approved by only those persons authorized to disburse funds (e.g., sign checks) per the entity's policy, and (b) approved by the required number of authorized signers per the entity's policy. Note: If no electronic payments were made from the main operating account during the month selected the practitioner should select an alternative month and/or account for testing that does include electronic disbursements.

Results: We noted the employee responsible for processing payments is also responsible for adding/modifying vendor files and mailing payments. No other exceptions noted.

6) Credit Cards/Debit Cards/Fuel Cards/Purchase Cards (Cards)

- A. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and purchase cards (cards) for the fiscal period, 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.
- B. 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:
- i. Observe whether 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) were reviewed and approved, in writing (or electronically approved) by someone other than the authorized card holder (those instances requiring such approval that may constrain the legal authority of certain public officials, such as the mayor of a Lawrason Act municipality, should not be reported); and
 - ii. Observe that finance charges and late fees were not assessed on the selected statements.
- C. Using the monthly statements or combined statements selected under procedure #6B above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (e.g., each card should have 10 transactions subject to inspection). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and observe whether management had a compensating control to address missing receipts, such as a "missing receipt statement" that is subject to increased scrutiny.

Results: No exceptions noted.

7) Travel and Travel-Related Expense Reimbursements (excluding card transactions)

- A. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements and obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:
- i. If reimbursed using a per diem, observe that the approved reimbursement rate is no more than those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov);
 - ii. If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased;
 - iii. Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by Written Policies and Procedures procedure #1A(vii); and
 - iv. Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Results: No exceptions noted.

8) Contracts

- A. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternatively, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:
- i. Observe whether the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law;
 - ii. Observe whether the contract was approved by the governing body/board, if required by policy or law (e.g., Lawrason Act, Home Rule Charter);
 - iii. If the contract was amended (e.g., change order), observe that the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g., if approval is required for any amendment, the documented approval); and
 - iv. Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Results: No exceptions noted.

9) Payroll and Personnel

- A. Obtain a listing of employees and officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees or officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.
- B. Randomly select one pay period during the fiscal period. For the 5 employees or officials selected under procedure #9A above, obtain attendance records and leave documentation for the pay period, and:
 - i. Observe that all selected employees or officials documented their daily attendance and leave (e.g., vacation, sick, compensatory);
 - ii. Observe whether supervisors approved the attendance and leave of the selected employees or officials;
 - iii. Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records; and
 - iv. Observe whether the rate paid to the employees or officials agrees to the authorized salary/pay rate found within the personnel file.
- C. Obtain a listing of those employees or officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees or officials and obtain related documentation of the hours and pay rates used in management's termination payment calculations and the entity's policy on termination payments. Agree the hours to the employee's or official's cumulative leave records, agree the pay rates to the employee's or official's authorized pay rates in the employee's or official's personnel files, and agree the termination payment to entity policy.
- D. Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

Results: No exceptions noted.

10) Ethics

- A. Using the 5 randomly selected employees/officials from Payroll and Personnel procedure #9A obtain ethics documentation from management, and:
 - i. Observe whether the documentation demonstrates that each employee/official completed one hour of ethics training during the calendar year as required by R.S. 42:1170; and
 - ii. Observe whether the entity maintains documentation which demonstrates that each employee and official were notified of any changes to the entity's ethics policy during the fiscal period, as applicable.

- B. Inquire and/or observe whether the agency has appointed an ethics designee as required by R.S. 42:1170.

Results: No exceptions noted.

11) Debt Service

- A. Obtain a listing of bonds/notes and other debt instruments issued during the fiscal period and management's representation that the listing is complete. Select all debt instruments on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each debt instrument issued as required by Article VII, Section 8 of the Louisiana Constitution.
- B. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

Results: No exceptions noted.

12) Fraud Notice

- A. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the Legislative Auditor and the district attorney of the parish in which the entity is domiciled as required by R.S. 24:523.
- B. Observe that the entity has posted, on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

Results: No exceptions noted.

13) Information Technology Disaster Recovery/Business Continuity

- A. Perform the following procedures, **verbally discuss the results with management, and report "We performed the procedure and discussed the results with management."**
- i. Obtain and inspect the entity's most recent documentation that it has backed up its critical data (if there is no written documentation, then inquire of personnel responsible for backing up critical data) and observe evidence that such backup (a) occurred within the past week, (b) was not stored on the government's local server or network, and (c) was encrypted.
 - ii. Obtain and inspect the entity's most recent documentation that it has tested/verified that its backups can be restored (if there is no written documentation, then inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.

- iii. Obtain a listing of the entity's computers currently in use and their related locations, and management's representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor.
- B. Randomly select 5 terminated employees (or all terminated employees if less than 5) using the list of terminated employees obtained in procedure #9C. Observe evidence that the selected terminated employees have been removed or disabled from the network.
 - C. Using the 5 randomly selected employees/officials from Payroll and Personnel procedure #9A, obtain cybersecurity training documentation from management, and observe that the documentation demonstrates that the following employees/officials with access to the agency's information technology assets have completed cybersecurity training as required by R.S. 42:1267. The requirements are as follows:
 - i. Hired before June 9, 2020 – completed the training; and
 - ii. Hired on or after June 9, 2020 – completed the training within 30 days of initial service or employment.

Results: We performed the procedure and discussed the results with management.

14) Prevention of Sexual Harassment

- A. Using the 5 randomly selected employees/officials from Payroll and Personnel procedure #9A, obtain sexual harassment training documentation from management, and observe that the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year as required by R.S. 42:343.
- B. Observe that the entity has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the entity's premises if the entity does not have a website).
- C. Obtain the entity's annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1st, and observe that the report includes the applicable requirements of R.S. 42:344:
 - i. Number and percentage of public servants in the agency who have completed the training requirements;
 - ii. Number of sexual harassment complaints received by the agency;
 - iii. Number of complaints which resulted in a finding that sexual harassment occurred;
 - iv. Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and
 - v. Amount of time it took to resolve each complaint.

Results: No exceptions noted.

We were engaged by the District 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 in the SAUPs. 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 procedures engagement.

This report is intended solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, 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 handwritten signature in cursive script that reads "LaPorte".

A Professional Accounting Corporation

Covington, LA
June 2, 2024

WATER WORKS DISTRICT NO. 2

PARISH OF ST. TAMMANY

BENJAMIN MARTINO
President

PIERRE FABRE
Vice-President

LORRAINE SABA
Secretary-Treasurer

MONIQUE STUBBS
Commissioner

SARAH HOLZHALB
Commissioner

June 18, 2024


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

RE: LLA 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 2023 LLA agreed-upon procedures engagement:

- 1) In response to the results of the Non-Payroll Disbursements section, management will amend procedures to include all elements as listed.

Sincerely,


A.J. Cigali,
General Manager