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ST. TAMMANY PARISH WATER DISTRICT NO. 3
COVINGTON, LOUISIANA

ANNUAL FINANCIAL STATEMENTS

December 31, 2003 and 2002

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The reports are also available for public inspection at the liaison branch office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date: 7-28-04

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Smith, Huval & Associates, L.L.C.

LA LIMITED LIABILITY COMPANY

Certified Public Accountants

P.O. Box 1792

Covington, Louisiana 70454-1792

Ronald E. Smith, CPA
Barth "Steve" Huval, CPA

(504) 834-6000 - Covington
(504) 834-6000 - Lake

INDEPENDENT AUDITORS REPORT

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

We have audited the accompanying financial statements of St. Tammany Parish Water District No. 2, (a component unit of the St. Tammany Parish Council) as of December 31, 2003 and 2002, and for the years then ended. These component unit financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 for financial and compliance audits contained in the *Governor's Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of St. Tammany Parish Water District No. 2 as of December 31, 2003 and 2002, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A to the basic financial statements, the District adopted the provisions of *Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; *Statement No. 33, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and *Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*. This results in a change in the format and content of the basic financial statements.

In accordance with *Governor's Auditing Standards*, we have also issued a report dated February 26, 2004, on our consideration of the internal control over financial reporting of St. Tammany Parish Water District No. 2 and on its compliance with laws and regulations. That report is an integral part of an audit performed in accordance with *Governor's Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

The Management's Discussion and Analysis on pages 3 through 5 are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

February 26, 2004

Smith, Havel & Associates, L.L.C.

ST. TAMMANY PARISH WATER DISTRICT NO. 2
MANAGEMENTS DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2009

The Management's Discussion and Analysis of Waterworks District No. 2 of St. Tammany Parish, Louisiana (the District) financial performance presents a narrative overview and analysis of the District's financial activities for the year ended December 31, 2009. 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 2009 by \$383,564 which represents a 10.8% increase from last fiscal year. Of this amount, \$136,839 (accrued net assets) may be used to meet the District's ongoing obligation to its users.

The District's revenues increased \$11,965, (or 2.9%) and the net results from activities decreased by \$13,712.

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 Assets; the Statements of Revenues and Expenses; the Statements of Changes in Net Assets; and the Statements of Cash Flows.

The *Statements of Net Assets* (pages 8-9) presents the current and long term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statements of Revenues and Expense, and the Statements of Changes in Net Assets* (pages 10-11) presents information showing how the District's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets 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 Flow* (pages 12-13) presents information showing how the District's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operation income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

FINANCIAL ANALYSIS OF THE ENTITY

| | <u>2003</u> | <u>2002</u> |
|---|-------------------|-------------------|
| Current and other assets | \$ 262,083 | \$ 281,329 |
| Capital assets | 817,320 | 825,418 |
| Total assets | <u>1,079,403</u> | <u>1,106,747</u> |
| Other liabilities | 158,789 | 162,915 |
| Long-term debt outstanding | <u>657,000</u> | <u>718,000</u> |
| Total liabilities | 795,789 | 860,915 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 200,289 | 172,781 |
| Restricted | 46,436 | 46,820 |
| Unrestricted | <u>136,859</u> | <u>126,449</u> |
| Total net assets | <u>\$ 383,584</u> | <u>\$ 346,050</u> |

Restricted net assets represent those assets that are not available for spending as a result of bond agreements. Conversely, unrestricted net assets are those that do not have any limitations for which these amounts may be used.

Net assets of the District increased by \$37,534, or 10.8% from December 31, 2002 to December 31, 2003.

| | <u>2003</u> | <u>2002</u> |
|-----------------------------------|------------------|------------------|
| Operating revenues | \$ 403,687 | \$ 392,182 |
| Operating expenses | <u>325,536</u> | <u>330,329</u> |
| Operating income | 58,151 | 41,860 |
| Non-operating revenues (expenses) | <u>9,383</u> | <u>5,336</u> |
| Net increase in net assets | <u>\$ 37,534</u> | <u>\$ 47,179</u> |

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2003, the District had \$913,270, net of accumulated depreciation, invested in a broad range of capital assets, including land, right-of-way, plant and distribution systems, and furniture and equipment. (See Table below). This amount represents a net decrease (including additions and deductions) of \$8,344 or 0.9% over last year.

| | <u>2003</u> | <u>2002</u> |
|-------------------------------|-------------------|-------------------|
| Land | \$ 10,541 | \$ 10,541 |
| Plant and equipment | 1,709,622 | 1,678,785 |
| Less accumulated depreciation | <u>(802,912)</u> | <u>(781,852)</u> |
| Total | <u>\$ 913,270</u> | <u>\$ 905,416</u> |

This year's major capital additions included above were:

| | |
|-------------------------|----------|
| • FT20 Piercing tool | \$ 4,489 |
| • 5 N. handsohead tools | \$ 4,785 |
| • Excavator | \$22,000 |

Debt

The District has \$713,000 in bonds outstanding at year-end, compared to \$776,000 last year, a decrease of 7.6%. A summary of this debt is shown in the table below.

| | <u>2003</u> | <u>2002</u> |
|-------------------------|-------------------|-------------------|
| Revenue Bonds | \$ 451,000 | \$ 478,000 |
| Public Improvement Bond | <u>262,000</u> | <u>298,000</u> |
| Total | <u>\$ 713,000</u> | <u>\$ 776,000</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. Cigalk, General Manager, Waterworks District No. 2 Parish of St. Tammany.

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

STATEMENTS OF NET ASSETS

December 31, 2003 and 2002

ASSETS

| | <u>2003</u> | <u>2002</u> |
|---------------------------------------|--------------------|--------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 24,279 | \$ 43,259 |
| Utility customers receivable | 48,368 | 47,975 |
| Accrued interest receivable | 557 | 3,877 |
| Due from other government | 3,208 | 3,208 |
| Inventory | <u>13,506</u> | <u>11,892</u> |
| Total current assets | <u>89,918</u> | <u>107,807</u> |
| Restricted Assets | | |
| Cash and cash equivalents | 46,972 | 38,973 |
| Investment in certificates of deposit | <u>135,196</u> | <u>143,747</u> |
| Total restricted assets | <u>182,168</u> | <u>182,720</u> |
| Fixed Assets | | |
| Plant and equipment at cost, net | 906,709 | 914,853 |
| Land | <u>18,561</u> | <u>18,561</u> |
| Total fixed assets | <u>925,270</u> | <u>933,414</u> |
| | <u>\$1,179,353</u> | <u>\$1,208,940</u> |

The accompanying notes are an integral part of these statements.

ST. TAMMANY PARISH WATER DISTRICT NO. 3
 COVINGTON, LOUISIANA

STATEMENTS OF NET ASSETS

December 31, 2003 and 2002

LIABILITIES AND FUND EQUITY

| | <u>2003</u> | <u>2002</u> |
|---|--------------------|--------------------|
| Current Liabilities (payable from unrestricted assets) | | |
| Accrued expenses | \$ 3,523 | \$ 6,833 |
| Accounts payable | 2,648 | 2,651 |
| Current unpaid compensated absences | <u>3,486</u> | <u>6,523</u> |
| Total current liabilities (payable from unrestricted assets) | <u>13,857</u> | <u>16,011</u> |
| Current Liabilities (payable from restricted assets) | | |
| Deferred gain on retirement of debt | 13,250 | 13,125 |
| Accrued interest on bonds | 11,653 | 13,230 |
| Meter deposits | 42,850 | 42,348 |
| Current maturities of bonds payable | <u>68,800</u> | <u>38,800</u> |
| Total current liabilities (payable from restricted assets) | <u>135,753</u> | <u>126,803</u> |
| Long-Term Debt, net of current maturities | | |
| Revenue bonds payable | 432,800 | 431,800 |
| Public improvement bond payable | <u>235,800</u> | <u>267,800</u> |
| Total long-term debt | <u>668,600</u> | <u>718,600</u> |
| Total liabilities | 795,789 | 868,413 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 308,369 | 172,751 |
| Restricted for bond retirement, system replacement, and meter deposits | 46,456 | 46,820 |
| Unrestricted | <u>136,832</u> | <u>136,446</u> |
| Total net assets | <u>391,657</u> | <u>348,017</u> |
| | <u>\$1,179,351</u> | <u>\$1,206,430</u> |

The accompanying notes are an integral part of these statements.

ST. TAMMANY PARISH WATER DISTRICT NO. 1
COVINGTON, LOUISIANA

STATEMENTS OF REVENUES AND EXPENSES

For the Years Ended December 31, 2003 and 2002

| | <u>2003</u> | <u>2002</u> |
|---------------------------------------|------------------|------------------|
| Operating Revenue | | |
| Water revenue | \$ 328,462 | \$ 332,887 |
| Maintenance revenue | 43,545 | 38,859 |
| Tap and connect fees | 30,540 | 20,280 |
| Other revenue | <u>120</u> | <u>100</u> |
| Total operating revenue | 402,667 | 392,103 |
| Operating Expenses | | |
| Salaries | 168,882 | 160,654 |
| Depreciation and amortization | 39,863 | 38,654 |
| Employee benefits | 23,962 | 14,557 |
| Insurance | 18,681 | 13,797 |
| Utilities and telephone | 19,487 | 17,944 |
| Operating supplies | 18,589 | 22,206 |
| Other | 17,019 | 14,718 |
| Payroll taxes | 13,483 | 11,463 |
| Rent | 9,240 | 10,090 |
| Legal and professional | 7,793 | 8,556 |
| Director fees | 7,620 | 4,200 |
| Travel, conferences and conventions | 7,157 | 5,766 |
| Postage and office supplies | 7,124 | 7,297 |
| Repairs and maintenance | 5,649 | 6,620 |
| Parish assessment expense | 5,061 | 4,993 |
| Truck expense | 2,454 | 5,884 |
| Uniforms | <u>1,283</u> | <u>1,771</u> |
| Total operating expenses | 375,516 | 358,239 |
| Net operating income | 28,151 | 40,863 |
| Non-Operating Revenue (Expense) | | |
| Ad valorem revenue | 41,252 | 38,666 |
| Interest income | 3,699 | 4,283 |
| Interest expense | (33,418) | (37,451) |
| State pension deduction | <u>(1,159)</u> | <u>(1,184)</u> |
| Total non-operating revenue (expense) | 9,383 | 5,316 |
| Change in net assets | <u>\$ 37,534</u> | <u>\$ 47,179</u> |

The accompanying notes are an integral part of these statements.

ST. TAMMANY PARISH WATER DISTRICT NO. 3
COVINGTON, LOUISIANA

STATEMENTS OF CHANGES IN NET ASSETS

For the Years Ended December 31, 2003 and 2002

| | <u>2003</u> | <u>2002</u> |
|-------------------------------|-------------------|-------------------|
| Net assets, beginning of year | \$ 346,000 | \$ 298,851 |
| Change in net assets | <u>17,534</u> | <u>43,178</u> |
| Net assets, end of year | <u>\$ 363,534</u> | <u>\$ 342,029</u> |

The accompanying notes are an integral part of these statements.

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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2003 and 2002

| | <u>2003</u> | <u>2002</u> |
|--|------------------|------------------|
| Cash flows from operating activities: | | |
| Receipts from customers | \$ 258,839 | \$ 351,984 |
| Receipts from other government for services performed | 43,343 | 38,823 |
| Payments to suppliers | (138,901) | (138,254) |
| Payments to employees | (178,319) | (137,675) |
| Payments to payroll taxing agencies | <u>(18,832)</u> | <u>(11,414)</u> |
| Net cash provided by operating activities | 60,531 | 82,478 |
| Cash flows from non-capital financing activities: | | |
| Net receipts from meter deposits | <u>384</u> | <u>(282)</u> |
| Net cash provided by (used for) non-capital financing activities | 384 | (349) |
| Cash flows from capital financing activities: | | |
| Principal paid on bonds | (58,000) | (53,000) |
| Interest paid on bonds | (28,893) | (29,328) |
| Ad valorem revenue, net | 40,162 | 38,482 |
| Purchase of fixed assets | <u>(38,921)</u> | <u>(4,288)</u> |
| Net cash used for capital financing activities | (85,708) | (58,998) |
| Cash flows from investing activities: | | |
| Interest received on investments | 3,209 | 1,698 |
| Proceeds from sales and maturities of investments | <u>17,451</u> | <u>1,818</u> |
| Net cash provided by investing activities | <u>20,770</u> | <u>3,516</u> |
| Net increase (decrease) in cash and cash equivalents | (3,852) | 28,857 |
| Cash and cash equivalents at beginning of year | <u>74,334</u> | <u>45,477</u> |
| Cash and cash equivalents at end of year | <u>\$ 70,482</u> | <u>\$ 74,334</u> |

The accompanying notes are an integral part of these statements.

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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2003 and 2002

| | <u>2003</u> | <u>2002</u> |
|---|------------------|------------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Net operating income | \$ 28,150 | \$ 41,863 |
| Adjustments to reconcile net operating income to cash provided by operating activities: | | |
| Depreciation and amortization | 38,682 | 38,654 |
| Increase in utility customer receivables | (1,283) | (1,283) |
| Decrease (increase) in inventory | (2,415) | 1,082 |
| Decrease in accounts payable | (807) | (867) |
| Increase (decrease) in accrued expenses | (1,210) | 48 |
| Increase (decrease) in accrued compensated absences | (3,853) | 2,879 |
| Total adjustments | <u>32,489</u> | <u>40,613</u> |
| Net cash provided by operating activities | <u>\$ 60,639</u> | <u>\$ 82,476</u> |

The accompanying notes are an integral part of these statements.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the St. Tammany Parish Water District No. 2 conform to accounting principles generally accepted in the United States of America as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guidance set forth in the Louisiana Governmental Audit Guide, and to the industry audit guide, *Audit of State and Local Governmental Units*. The following is a summary of certain significant accounting policies.

1. Reporting Entity

The reporting entity for St. Tammany Parish consists of the St. Tammany Parish Council, which as governing authority of the parish is the component unit with oversight responsibility, and other governmental units (component units) within the parish over which the Council exercises oversight responsibility. In accordance with GASB codification Section 2100, St. Tammany Parish Water District No. 2 is considered a component unit of the parish reporting entity because (1) commissioners of the District are appointed by the St. Tammany Parish Council and (2) the District provides water service to residents within St. Tammany Parish. While St. Tammany Parish Water District No. 2 is an integral part of the parish reporting entity and should be included within the general purpose 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 St. Tammany Parish Water District No. 2 and do not present information on the St. Tammany Parish Council, the general government services provided by the Council or on other component units that comprise the St. Tammany Parish reporting entity.

2. Fund Accounting

The accounts of St. Tammany Parish Water District No. 2 are organized on the basis of Enterprise Fund accounting used by governmental entities. The Enterprise 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. The District applies all applicable GASB pronouncements passed on or before November 30, 1989 in accounting and reporting for its proprietary fund operations unless those pronouncements conflict with or contradict GASB pronouncements.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Method of Accounting

On January 1, 2001, the District adopted the provisions of Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." Statement 34 established standards for external reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including 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 unspent related debt proceeds at the year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

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 enterprise fund are charges to customers for sales and services. The District also recognizes as operating revenue the portion of tag fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds 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.

GASB Statement No. 30 also states that for proprietary activities, management may elect to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The District will not elect to apply FASB Statements and Interpretations issued after November 30, 1989, unless they are adopted by GASB.

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.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. 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 considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

5. Utility Customer Receivables

Utility customer receivables on the accompanying balance sheets are considered to be fully collectible at December 31, 2003 and 2002. Uncollectible amounts are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of an account.

6. Capital Assets

All fixed assets of the proprietary fund are recorded at historical costs. Depreciation of all exhaustible fixed assets is charged as an expense against their operations. Pre-construction costs associated with the development of the water system, which includes engineering, legal, and interest costs are capitalized and will be amortized over their estimated useful lives using the straight-line method.

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 fixed assets, as applicable. The following estimated useful lives and methods are used to compute depreciation:

| | | |
|-----------------------------------|---------------|---------------|
| Building | 10 - 15 years | Straight Line |
| Plant and distribution system | 40 years | Straight Line |
| Furniture, fixtures and equipment | 5 - 10 years | Straight Line |
| Software | 5 - 10 years | Straight Line |
| Vehicles | 5 years | Straight Line |

Depreciation expense amounted to \$38,062 for the year ended December 31, 2003, and \$38,654 for the year ended December 31, 2002.

ST. TAMMANY PARISH WATER DISTRICT NO. 3
COVINGTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Inventory

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

8. Compensated Absence

FASB No. 43 requires employers to accrue a liability for future vacation and sick leave based on services already rendered. Employees of the District earn annual vacation leave based on the following:

| <u>Years of Service</u> | <u>Annual Earned</u> |
|-------------------------|----------------------|
| 1 to 3 years | 1 week |
| 3 or more years | 2 weeks |

Upon termination of service, employees are paid for unused annual vacation leave. Sick leave is earned at the rate of 12 days per year. An unlimited amount of sick leave can be accumulated, however, all accumulated sick leave lapses upon termination of services.

In accordance with the above, the District has accrued the following for vacation and sick leave which have been earned but not taken as of December 31:

| | <u>2003</u> | <u>2002</u> |
|------------|-----------------|-----------------|
| Sick leave | \$ 5,488 | \$ 6,523 |
| Vacation | - | - |
| Total | <u>\$ 5,488</u> | <u>\$ 6,523</u> |

9. Federal Income Taxes

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

10. Amortization of Deferred Gain on Retirement of Bond

The deferred gain recorded on the retiring of bonds in a prior year is amortized on a straight-line basis over the life of the new bond. Amortization deducted against interest expense was \$1,875 in the years ended December 31, 2003 and 2002.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. 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 these estimates.

NOTE B - PLEDGE OF SECURITIES

At December 31, 2003 and 2002, the carrying amount of the District's total deposits (including cash and certificates of deposit) was \$196,447 and \$217,083, respectively, and the bank balance was \$196,810 and \$218,571, respectively. Under state law, these deposits, or the resulting bank balances, must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. At December 31, 2003 and 2002, bank deposits were collateralized by federal deposit insurance of \$152,540 and \$173,811, respectively, and pledged securities of \$44,270 and \$42,760, respectively. These securities are considered to be a Category 1 credit risk as defined by accounting principles generally accepted in the United States of America.

Category 1 includes bank balances which are insured or collateralized with securities held by the District or its agent in the District's name.

The carrying amount of deposits does not include accrued interest on certificates of deposit of \$557 for 2003 (\$3,877 for 2002).

NOTE C - CASH AND CASH EQUIVALENTS

At December 31, 2003 and 2002, cash and cash equivalents for both current and restricted assets consisted of the following:

| | <u>2003</u> | <u>2002</u> |
|--------------------------|-------------------|-------------------|
| Unrestricted | \$ 24,279 | \$ 43,199 |
| Restricted | <u>86,972</u> | <u>70,075</u> |
| Cash on hand and in bank | <u>\$ 111,251</u> | <u>\$ 113,274</u> |

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE D - RESTRICTED ASSETS

Resolutions authorizing the issuance of a Waterworks Revenue Bond dated September 12, 1979, series 1979, for \$206,000, and the Water Revenue Bonds dated January 7, 1999, for \$500,000, provided for certain restrictions of assets of St. Tammany Parish Water District No. 2. These requirements have been met as of December 31, 2003 and 2002.

Restricted cash and investments follow:

| December 31, 2003 | Cash and Cash Equivalents | Certificates of Deposit | Total |
|--------------------------|------------------------------|----------------------------|------------|
| Revenue bonds | \$ 13,241 | \$ 68,864 | \$ 82,105 |
| Public improvement bonds | 23,781 | 38,479 | 62,260 |
| Meter deposits | 3,850 | 34,676 | 38,526 |
| Total restricted | \$ 40,872 | \$ 142,019 | \$ 182,891 |

| December 31, 2002 | Cash and Cash Equivalents | Certificates of Deposit | Total |
|--------------------------|------------------------------|----------------------------|------------|
| Revenue bonds | \$ 48 | \$ 68,453 | \$ 68,501 |
| Public improvement bonds | 27,262 | 38,479 | 65,741 |
| Meter deposits | 3,573 | 43,811 | 47,384 |
| Total restricted | \$ 31,283 | \$ 150,743 | \$ 182,026 |

NOTE E - AD VALOREM TAXES

The St. Tammany Parish Water District No. 2 was authorized to levy a special ad valorem tax of 6 mills on all property subject to taxation to cover debt service requirements. The proceeds of this ad valorem tax is for the purpose of paying the principal and interest of the two outstanding public improvement bonds. The following is a roll-forward of ad valorem funds for the year ended December 31, 2003:

| | |
|-----------------------------------|-----------|
| Beginning cash and investments | \$ 37,838 |
| Plus: Ad valorem receipts, net | 45,103 |
| Subtotal | 82,941 |
| Less: Principal payments on bonds | (37,000) |
| Interest payments on bonds | (11,722) |
| Ending cash and investments | \$ 34,219 |

ST. TAMMANY PARISH WATER DISTRICT NO. 3
COVINGTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE E - AD VALOREM TAXES (Continued)

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied by the District on December 1, 2003. Billed taxes were delinquent on January 1, 2004. Revenues from ad valorem taxes are budgeted for the year received, due to the Board of Commissioners' intentions. 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.

NOTE F - LONG-TERM DEBT

The following is a summary of bond transactions of the St. Tammany Parish Water District No. 3 for the years ended December 31, 2003 and 2002:

| | <u>2003</u> | <u>2002</u> |
|------------------------------|-------------------|-------------------|
| Revenue Bonds: | | |
| Bonds payable at January 1 | \$ 478,000 | \$ 504,000 |
| Bonds issued | - | - |
| Bonds retired | <u>(27,000)</u> | <u>(26,000)</u> |
| Bonds payable at December 31 | <u>\$ 451,000</u> | <u>\$ 478,000</u> |
| Public Improvement Bonds: | | |
| Bonds payable at January 1 | \$ 298,000 | \$ 325,000 |
| Bonds issued | - | - |
| Bonds retired | <u>(22,000)</u> | <u>(27,000)</u> |
| Bonds payable at December 31 | <u>\$ 276,000</u> | <u>\$ 298,000</u> |

The following is a description of the bonds of the St. Tammany Parish Water District No. 3 for the years ended December 31, 2003 and 2002:

| | <u>2003</u> | <u>2002</u> |
|---|-------------|-------------|
| Revenue Bonds: | | |
| \$208,000 Waterworks Revenue Bonds dated September 12, 1978; balance due in annual principal installments of \$6,000 - \$14,000 plus interest payments through September 12, 2004; with interest at 5%. | \$ 14,000 | \$ 27,000 |

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE F - LONG-TERM DEBT (Continued)

| | <u>2003</u> | <u>2002</u> |
|--|-------------------|-------------------|
| Revenue Bonds (Continued): | | |
| \$500,000 Water Revenue Bonds dated January 7, 1999; balance due in annual principal installments of \$11,000 - \$43,000 plus interest payments through September 1, 2018, with interest at rates of 4.10% to 5.90%, collateralized by water revenues. | 451,000 | 451,000 |
| | <u>\$ 451,000</u> | <u>\$ 451,000</u> |

Public Improvement Bonds:

| | | |
|---|---------|---------|
| \$305,000 General Obligation Refunding Bonds dated January 7, 1999; balance due in annual principal installments of \$2,000 - \$50,000, plus semiannual interest payments through September 1, 2003 with interest at 4.15%, collateralized by ad valorem taxes. | 298,000 | 298,000 |
|---|---------|---------|

The annual requirements to amortize all bonds outstanding as of December 31, 2003 including interest payments are as follows:

| | Revenue Bonds | | | Public Improvement Bonds | | |
|--------------|------------------|------------------|------------------|--------------------------|------------------|------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2004 | \$ 20,000 | \$ 23,924 | \$ 43,924 | \$ 31,000 | \$ 10,395 | \$ 41,395 |
| 2005 | 20,000 | 22,549 | 42,549 | 35,000 | 9,026 | 44,026 |
| 2006 | 21,000 | 21,629 | 42,629 | 34,000 | 7,395 | 41,395 |
| 2007 | 25,000 | 20,642 | 45,642 | 35,000 | 6,181 | 41,181 |
| 2008 | 24,000 | 19,530 | 43,530 | 37,000 | 4,544 | 41,544 |
| 2009 to 2013 | 143,000 | 78,073 | 221,073 | 91,000 | 3,852 | 94,852 |
| 2014 to 2018 | <u>181,000</u> | <u>34,365</u> | <u>215,365</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Total | <u>\$451,000</u> | <u>\$220,712</u> | <u>\$671,712</u> | <u>\$296,000</u> | <u>\$ 41,518</u> | <u>\$337,518</u> |

ST. TAMMANY PARISH WATER DISTRICT NO. 1
COVINGTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 12 - CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2003 and 2002 are as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-------------|-----------|-------------------|
| For the year ended December 31, 2003 | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 10,001 | \$ - | \$ - | \$ 10,001 |
| Capital assets being depreciated: | | | | |
| Building | 30,000 | | | 30,000 |
| Machinery and equipment | 1,291,639 | 30,294 | | 1,321,933 |
| Office equipment | 17,000 | 624 | | 17,624 |
| Vehicles | 42,303 | | | 42,303 |
| Software | 4,032 | | | 4,032 |
| Total capital assets being depreciated | 1,374,974 | 30,918 | - | 1,405,892 |
| Less accumulated depreciation for: | | | | |
| Building | (20,000) | | | (20,000) |
| Machinery and equipment | (884,637) | (20,000) | | (904,637) |
| Office equipment | (11,000) | (1,200) | | (12,200) |
| Vehicles | (44,000) | (1,125) | | (45,125) |
| Software | (3,032) | (367) | | (3,400) |
| Total accumulated depreciation | (966,669) | (22,692) | - | (989,361) |
| Total capital assets being depreciated - net | 408,305 | 8,226 | - | 416,531 |
| Capital assets - net | \$ 10,001 | \$ 8,226 | \$ - | \$ 18,227 |
| For the year ended December 31, 2002 | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 10,001 | \$ - | \$ - | \$ 10,001 |
| Capital assets being depreciated: | | | | |
| Building | 30,000 | | | 30,000 |
| Machinery and equipment | 1,291,639 | | | 1,291,639 |
| Office equipment | 12,504 | 4,780 | | 17,284 |
| Vehicles | 42,303 | | | 42,303 |
| Software | 4,032 | | | 4,032 |
| Total capital assets being depreciated | 1,374,978 | 4,780 | - | 1,379,758 |
| Less accumulated depreciation for: | | | | |
| Building | (20,000) | | | (20,000) |
| Machinery and equipment | (856,635) | (24,034) | | (880,669) |
| Office equipment | (3,000) | (1,017) | | (4,017) |
| Vehicles | (40,004) | (1,200) | | (41,204) |
| Software | (2,032) | (367) | | (2,400) |
| Total accumulated depreciation | (911,671) | (26,618) | - | (938,289) |
| Total capital assets being depreciated - net | 463,307 | (21,838) | - | 441,469 |
| Capital assets - net | \$ 10,001 | \$ (21,838) | \$ - | \$ (11,837) |

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE H - NET ASSETS

Net assets for the years ended December 31, 2003 and 2002 consist of the following:

| | <u>2003</u> | <u>2002</u> |
|--|-------------------|-------------------|
| Invested in capital assets, net of related debt | \$ 200,289 | \$ 172,781 |
| Restricted: | | |
| Restricted for revenue bonds | 40,481 | 33,393 |
| Restricted for public improvement bonds | 6,035 | 8,581 |
| Restricted for water deposits | - | 4,834 |
| Unrestricted | <u>136,529</u> | <u>126,449</u> |
| | <u>\$ 383,334</u> | <u>\$ 345,038</u> |

NOTE I - COMMITMENTS

St. Tammany Parish Water District No. 2 entered into a ten year lease for office space with monthly payments of \$840 which commenced on January 1, 2002. Rental expense totaled \$8,240 and \$10,140 for the years ended December 31, 2003 and 2002, respectively. The following are the scheduled future minimum rental payments under the lease:

| | |
|------------|------------------|
| 2004 | \$ 10,080 |
| 2005 | 10,080 |
| 2006 | 10,080 |
| 2007 | 10,080 |
| 2008 | 10,080 |
| Thereafter | <u>37,800</u> |
| | <u>\$ 88,200</u> |

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE J - BOARD MEMBERS' PER DIEM PAYMENTS

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

| | <u>2003</u> | <u>2002</u> |
|--|-----------------|-----------------|
| Bill Forrer, Commissioner | \$ - | \$ 240 |
| Pierre Feltre, Commissioner 20120 Hwy. 36 Covington, LA 70435 | 1,320 | 780 |
| Wayne Jacobs, Commissioner #4 Pipe Loop Covington, LA 70435 | 2,760 | 1,380 |
| Kathy Nantel, Commissioner 895 Claudia Drive Covington, LA 70435 | 1,260 | 660 |
| A. J. Cigali, Commissioner | - | 120 |
| Clyde Hahn 73482 Military Road Covington, LA 70435 | 1,020 | 540 |
| Michael Stubbs 26476 Alexandria Street Covington, LA 70435 | <u>1,260</u> | <u>480</u> |
| | <u>\$ 7,620</u> | <u>\$ 4,700</u> |

NOTE K - PRIOR YEAR DEPLEASANCE OF BONDS

In prior years, the District has defeased a bond issue by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and flood earnings from these investments are sufficient to fully service the defeased debt until the debt is called or matured. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the balance sheet of the District. As of December 31, 2003, the amount of the defeased debt outstanding but removed from the balance sheet amounted to \$280,000.

ST. TAMMANY PARISH WATER DISTRICT NO. 1
COVINGTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE L - WATER RATES

At December 31, 2003, the District charges the following water rates to each of its customers based on volume:

| | |
|-------------------------------------|--|
| Minimum bill - residential | \$8.50 |
| Minimum bill - commercial | \$10.00 |
| Over 2,000 but under 6,000 gallons | Additional \$2.80 per thousand gallons |
| Over 6,000 but under 12,000 gallons | Additional \$1.40 per thousand gallons |
| Over 12,000 gallons | Additional \$1.45 per thousand gallons |

At December 31, 2003, the District served 1,361 residential and 30 non-residential customers.

NOTE M - INSURANCE COVERAGE

At December 31, 2003, the District maintained the following insurance coverages:

| Type of Coverage | Expiration Date | Amount of Coverage |
|--------------------------|-------------------|--------------------|
| Water Tech | February 15, 2004 | \$ 250,000 |
| Building and contents | February 15, 2004 | 100,000 |
| Equipment | February 15, 2004 | 91,500 |
| Employee dishonesty bond | February 15, 2004 | 100,000 |
| General Liability | February 15, 2004 | |
| Aggregate | | \$2,000,000 |
| Operations | | 1,000,000 |
| Personal | | 1,000,000 |
| Each occurrence | | 1,000,000 |
| Fire and explosion | | 50,000 |
| Medical | | 5,000 |
| Auto liability | February 15, 2004 | \$ 300,000 |
| Workers's compensation | January 1, 2004 | Statutory |
| Directors and officers | July 11, 2004 | \$1,000,000 |

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE N - UTILITY CUSTOMER RECEIVABLE

At December 31, 2003, the District had the following accounts receivable categorized by aging:

| | Number of Customers | Balance |
|-------------|------------------------|------------------|
| Current | 1,048 | \$ 37,000 |
| 30 - 60 | 136 | 4,599 |
| 61 - 90 | 131 | 4,353 |
| 90 and over | <u>78</u> | <u>2,618</u> |
| | <u>1,393</u> | <u>\$ 48,568</u> |

Smith, Hyval & Associates, L.L.C.

AN EQUAL OPPORTUNITY FIRM

Certified Public Accountants

P.O. Box 1790

Covington, Louisiana 70434-3790

Samuel E. Smith, CPA
Parish Water Board, CPA

(504) 832-6633 - Covington
(504) 832-6666 - I-10

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of St. Tammany Parish Water District No. 2 as of and for the years ended December 31, 2001 and 2002 and have issued our report thereon dated February 26, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether St. Tammany Parish Water District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. Tammany Parish Water District No. 2's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the use of management and the Louisiana Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

February 26, 2004

Smith, Hyval & Associates, L.L.C.