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

COMPONENT UNIT  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

December 31, 1999 and 1998

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 report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date APR 05 2000

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

(A LIMITED LIABILITY COMPANY)

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying component unit financial statements of St. Tammany Parish Water District No. 2 (a governmental agency) as of December 31, 1999 and 1998, 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 component unit financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the component unit 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, 1999 and 1998, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 25, 2000, 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.

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

February 25, 2000

St. Tammany Parish Water District No. 2  
Covington, Louisiana

BALANCE SHEETS

December 31, 1999 and 1998

ASSETS

	<u>1999</u>	<u>1998</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 63,931	\$ 52,927
Investments in certificates of deposit	97,386	72,661
Utility customers receivable, net	31,223	27,725
Accrued interest receivable	2,846	5,582
Due from other government agency	3,205	3,205
Inventory	<u>15,594</u>	<u>14,574</u>
Total current assets	<u>214,185</u>	<u>176,674</u>
<b>Restricted Assets</b>		
Prepaid bond interest	35,175	-
Cash and cash equivalents	26,967	7,591
Investment in certificates of deposit	<u>115,322</u>	<u>150,712</u>
Total restricted assets	<u>177,464</u>	<u>158,303</u>
 Construction in progress	 580,801	 31,996
<b>Fixed Assets</b>		
Plant and equipment at cost, net	422,356	442,287
Land	<u>10,561</u>	<u>10,561</u>
Total fixed assets	<u>432,917</u>	<u>452,848</u>
	<u>\$1,405,367</u>	<u>\$ 819,821</u>

The accompanying notes are an integral part of these statements.

St. Tammany Parish Water District No. 2  
Covington, Louisiana

BALANCE SHEETS - Continued

December 31, 1999 and 1998

LIABILITIES AND FUND EQUITY

	1999	1998
Current Liabilities (payable from unrestricted assets)		
Accrued expenses	\$ 7,668	\$ 6,283
Accounts payable	95,375	-
Current unused compensated absences	3,990	2,203
Total current liabilities	107,033	8,486
Current Liabilities (payable from restricted assets)		
Deferred gain on retirement of debt	18,750	-
Accrued interest on bonds	22,803	10,560
Meter deposits	42,040	41,435
Current maturities of bonds payable	45,000	31,000
Total current liabilities (payable from restricted assets)	128,593	82,995
Long-Term Debt, net of current maturities		
Revenue bonds payable	528,000	64,000
Public improvement bond payable	352,000	380,000
Total long-term debt	880,000	444,000
Total liabilities	1,115,626	535,481
Retained earnings	289,741	284,340
	\$1,405,367	\$ 819,821

The accompanying notes are an integral part of these statements.

St. Tammany Parish Water District No. 2  
Covington, Louisiana

STATEMENTS OF REVENUES AND EXPENSES

For the Years Ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Operating Revenue		
Water revenue	\$ 238,035	\$239,510
Maintenance revenues	37,255	36,965
Tap and connect fees	18,405	10,240
Other revenue	<u>876</u>	<u>100</u>
Total operating revenue	<u>294,571</u>	<u>286,815</u>
Operating Expenses		
Salaries	134,026	114,346
Employee benefits	11,653	5,604
Operating supplies	21,475	23,576
Depreciation and amortization	28,646	27,294
Insurance	16,553	10,432
Utilities and telephone	16,235	14,224
Legal and professional	14,218	6,140
Rent	12,000	12,000
Payroll taxes	10,473	9,203
Postage and office supplies	6,701	4,868
Other	6,685	8,815
Travel, conferences and conventions	5,622	3,332
Parish assessment expense	4,336	4,674
Director fees	4,320	4,440
Truck expenses	3,704	1,628
Repair and maintenance	1,908	5,423
Uniforms	<u>1,842</u>	<u>1,271</u>
Total operating expenses	<u>300,397</u>	<u>257,270</u>
Net operating income (loss)	(5,826)	29,545
Non-Operating Revenue (Expense)		
Ad valorem revenue	59,372	60,010
Interest income	20,852	11,424
Loss on sale of fixed assets	-	(1,441)
Interest expense	(67,144)	(32,470)
State pension deduction	<u>(1,853)</u>	<u>(1,816)</u>
Total non-operating revenue (expense)	<u>11,227</u>	<u>35,707</u>
Net income	<u>\$ 5,401</u>	<u>\$ 65,252</u>

The accompanying notes are an integral part of these statements.

St. Tammany Parish Water District No. 2  
Covington, Louisiana

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Retained earnings at beginning of year	\$ 284,340	\$ 219,088
Net income	<u>5,401</u>	<u>65,252</u>
Retained earnings at end of year	<u>\$ 289,741</u>	<u>\$ 284,340</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, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Net operating income (loss)	\$ (5,826)	\$ 29,545
Adjustments to reconcile net operating income (loss) to cash provided by operating activities		
Depreciation and amortization	28,646	27,532
Increase in utility customer receivables	(3,498)	(1,996)
Increase in inventory	(1,020)	(2,421)
Increase in accounts payable	95,375	-
Increase in accrued expenses	1,385	998
Increase in accrued compensated absences	<u>1,787</u>	<u>1,279</u>
Total adjustments	<u>122,675</u>	<u>25,392</u>
Net cash provided by operating activities	<u>116,849</u>	<u>54,937</u>
Cash flows from non-capital financing activities:		
Net receipts from meter deposits	<u>605</u>	<u>390</u>
Net cash provided by non-capital financing activities	<u>605</u>	<u>390</u>
Cash flows from capital financing activities:		
Principal paid on bonds	(385,000)	(31,000)
Proceeds from issuance of bonds	835,000	-
Interest paid on bonds	(91,951)	(33,210)
Deferred gain on retirement of debt	20,625	-
Ad valorem revenue, net	57,519	58,194
Proceeds from sale of fixed assets	-	500
Construction costs	(548,805)	(31,996)
Purchase of fixed assets	<u>(8,715)</u>	<u>(17,407)</u>
Net cash used for capital financing activities	<u>(121,327)</u>	<u>(54,919)</u>
Cash flows from investing activities:		
Interest received on investments	23,588	7,990
Maturities of certificates of deposit	943,650	179,358
Purchase of certificates of deposits	<u>(932,985)</u>	<u>(284,408)</u>
Net cash provided (used) by investing activities	<u>34,253</u>	<u>(97,060)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,380	(96,652)
Cash and cash equivalents at beginning of year	<u>60,518</u>	<u>157,170</u>
Cash and cash equivalents at end of year	<u>\$ 90,898</u>	<u>\$ 60,518</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, 1999 and 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the St. Tammany Parish Water District No. 2 conform to generally accepted accounting principles 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 Municipal Audit and Accounting Guide*, and to the industry audit guide, *Audits 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 Police Jury, 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 police jury 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 Police Jury 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 Police Jury, the general government services provided by the police jury 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 FASB 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  
Covington, Louisiana

NOTES TO FINANCIAL STATEMENTS

December 31, 1999 and 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Fixed Assets and Long-Term Debt

Fixed assets of the Enterprise fund are capitalized in the fund account because the fixed assets are used in the production of goods or services sold. Fixed assets consist of property, plant, and equipment. All fixed assets are recorded at cost. Depreciation of all exhaustible fixed assets is charged as an expense against their operations. Depreciation has been provided principally using the straight-line method. The estimated lives are as follows:

Machinery and equipment	5 - 40 years
Office Equipment	5 - 10 years
Buildings	10 - 15 years

Long-term obligations are recognized within the Enterprise fund.

4. Basis of Accounting

The accompanying financial statements are accounted for using the accrual basis of accounting whereby all revenues, except ad valorem revenues, are recognized when they are earned and expenses are recognized when incurred. The District recognizes ad valorem taxes on a cash basis, where revenues are recognized in the period received. Therefore, an accrual of ad valorem taxes is not reflected in the accompanying statements.

5. 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 certificate 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.

6. Utility Customer Receivables

Utility customer receivables on the accompanying balance sheets are considered to be fully collectible at December 31, 1999 and 1998. 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.

St. Tammany Parish Water District No. 2  
Covington, Louisiana

NOTES TO FINANCIAL STATEMENTS

December 31, 1999 and 1998

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 Absences

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 - 3	1 week
3 or more	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>1999</u>	<u>1998</u>
Sick leave	\$ -	\$ -
Vacation	<u>3,990</u>	<u>2,203</u>
Total	<u>\$ 3,990</u>	<u>\$ 2,203</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.

NOTE B - PLEDGE OF SECURITIES

At December 31, 1999 and 1998, the carrying amount of the District's total deposits (including cash and certificates of deposit) was \$303,606 and \$283,842, respectively, and the bank balance was \$304,302 and \$285,065, 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. The District's deposits (bank balances) as of December 31, 1999 and 1998 are considered to be a Category 1 credit risk as defined by generally accepted accounting principles.

St. Tammany Parish Water District No. 2  
Covington, Louisiana

NOTES TO FINANCIAL STATEMENTS

December 31, 1999 and 1998

NOTE B - PLEDGE OF SECURITIES - Continued

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 a cash on hand balance of \$50 or accrued interest on certificates of deposit of \$2,846 for 1999 (\$5,582 for 1998).

NOTE C - CASH AND CASH EQUIVALENTS

At December 31, 1999 and 1998, cash and cash equivalents for both current and restricted assets consisted of the following:

	<u>1999</u>	<u>1998</u>
Cash on hand and in bank	<u>\$ 90,898</u>	<u>\$ 60,518</u>

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, 1999 and 1998.

Restricted cash and investments follow:

	<u>1999</u>		
	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Certificates</u> <u>of Deposit</u>	<u>Total</u>
Revenue bonds	\$ 40	\$ 44,353	\$ 44,393
Public improvement bonds	20,424	11,972	32,396
Meter deposits	6,503	58,997	65,500
Replacement fund	<u>-</u>	<u>-</u>	<u>-</u>
Total restricted	<u>\$ 26,967</u>	<u>\$ 115,322</u>	<u>\$ 142,289</u>

St. Tammany Parish Water District No. 2  
Covington, Louisiana

NOTES TO FINANCIAL STATEMENTS

December 31, 1999 and 1998

NOTE D - RESTRICTED ASSETS - Continued

	<u>1998</u>	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Certificates</u> <u>of Deposit</u>	<u>Total</u>
Revenue bonds	\$ 40	\$ 29,628	\$ 29,668	
Public improvement bonds	2,378	48,889	51,267	
Meter deposits	5,173	56,277	61,450	
Replacement fund	<u>-</u>	<u>15,918</u>	<u>15,918</u>	
 Total restricted	 <u>\$ 7,591</u>	 <u>\$ 150,712</u>	 <u>\$ 158,303</u>	

In the current assets section of the balance sheet, \$36,851 of cash and \$30,000 in a certificate of deposit as of December 31, 1999, (\$3,441 of cash and \$60,000 in a certificate of deposit in 1998) represent remaining bond proceeds plus interest earned from public improvement bonds issued in 1991 and the revenue bonds issued in 1999. These funds are to be used by the District for constructing and acquiring extensions and improvements to the water works treatment plant and distribution system.

NOTE E - AD VALOREM TAXES

The St. Tammany Parish Water District No. 2 was authorized to levy a special ad valorem tax of 12 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, 1999:

Beginning cash and investments	\$ 51,267
Plus: Ad valorem receipts, net	57,519
Interest earned on certificates of deposits	<u>377</u>
Subtotal	109,163
Less:	
Transfer to Escrow Agent for advance refunding	(38,000)
Principal payments on bonds	(26,000)
Interest payments on bonds	<u>(12,767)</u>
Ending cash and investments	<u>\$ 32,396</u>

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, 1999. Billed taxes were delinquent on January 1, 2000. Revenues from

St. Tammany Parish Water District No. 2  
Covington, Louisiana

NOTES TO FINANCIAL STATEMENTS

December 31, 1999 and 1998

NOTE E - AD VALOREM TAXES - Continued

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. 2 for the years ended December 31, 1999 and 1998.

	<u>1999</u>	<u>1998</u>
Revenue:		
Bonds payable at January 1	\$ 75,000	\$ 86,000
Bonds issued	500,000	-
Bonds retired	<u>(24,000)</u>	<u>(11,000)</u>
Bonds payable at December 31	<u>\$ 551,000</u>	<u>\$ 75,000</u>
Public Improvement:		
Bonds payable at January 1	\$ 400,000	\$ 420,000
Bonds issued	335,000	-
Bonds retired	<u>(361,000)</u>	<u>(20,000)</u>
Bonds payable at December 31	<u>\$ 374,000</u>	<u>\$ 400,000</u>
Revenue Bonds:		
\$206,000 Waterworks Revenue Bonds dated September 12, 1979; balance due in annual principal installments of \$6,000 - \$14,000 plus interest payments through September 12, 2004; with interest at 5%	\$ 64,000	\$ 75,000
\$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	487,000	-
	<u>\$ 551,000</u>	<u>\$ 75,000</u>

St. Tammany Parish Water District No. 2  
Covington, Louisiana

NOTES TO FINANCIAL STATEMENTS

December 31, 1999 and 1998

NOTE F - LONG-TERM DEBT - Continued

	<u>1999</u>	<u>1998</u>
Public Improvement Bonds:		
\$500,000 Public Improvement Bonds dated January 1, 1991; balance due in annual principal installments of \$20,000 and, 25,000 plus semi-annual interest payments through March 1, 2001; with interest at 7.60% to 6.90% collateralized by ad valorem taxes	\$ 45,000	\$ 400,000
\$335,000 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, 2010 with interest at 4.15% collateralized by ad valorem taxes.	329,000	-
	<u>\$ 374,000</u>	<u>\$ 400,000</u>

The annual requirements to amortize all bonds outstanding as of December 31, 1999 including interest payments are as follows:

	<u>Revenue Bonds</u>	<u>Public Improvement Bonds</u>
2000	\$ 51,554	\$ 38,017
2001	51,503	41,392
2002	52,399	39,927
2003	52,190	43,703
2004	52,924	41,396
Thereafter	<u>618,796</u>	<u>266,229</u>
	879,366	470,664
Less: interest	<u>(328,366)</u>	<u>(96,664)</u>
	<u>\$ 551,000</u>	<u>\$ 374,000</u>

St. Tammany Parish Water District No. 2  
Covington, Louisiana

NOTES TO FINANCIAL STATEMENTS

December 31, 1999 and 1998

NOTE G - FIXED ASSETS

Fixed assets are shown at net on the balance sheet and consist of the following:

	<u>1999</u>	<u>1998</u>
Machinery and equipment	\$1,030,772	\$1,024,534
Buildings	20,060	20,060
Office equipment	16,233	12,255
Less: accumulated depreciation	<u>(644,709)</u>	<u>(614,562)</u>
Balance at end of year	<u>\$ 422,356</u>	<u>\$ 442,287</u>

NOTE H - RETAINED EARNINGS

Retained earnings for the year ended December 31, 1999 and 1998 consist of the following:

	<u>1999</u>	<u>1998</u>
Reserved:		
Reserve for revenue bonds	\$ 11,986	\$ 17,538
Reserve for public improvement bonds	13,425	21,837
Reserve for meter deposits	23,460	20,015
Reserve for replacement	-	15,918
Unreserved	<u>240,870</u>	<u>209,032</u>
	<u>\$ 289,741</u>	<u>\$ 284,340</u>

NOTE I - COMMITMENTS

St. Tammany Parish Water District No. 2 rents their facility for \$1,000 monthly from a member of the Board of Commissioners. The rental expense totaled \$12,000 for each of the years ended December 31, 1999 and 1998, respectively.

As of December 31, 1999, the St. Tammany Parish Water District No. 2 had entered into construction contracts for a new well and storage tank. At December 31, 1999, \$580,801 of construction related expenses have been recorded as construction in progress. At December 31, 1999, all remaining obligations under these construction contracts have been recorded as current liabilities. The District is awaiting the completion of certain outstanding "punch list items" before payment of final estimate and retainages.

St. Tammany Parish Water District No. 2  
Covington, Louisiana

NOTES TO FINANCIAL STATEMENTS

December 31, 1999 and 1998

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>1999</u>	<u>1998</u>
Bill Ferrer, Commissioner; Sec.-Treasurer	\$ 1,380	\$ 1,440
R. L. Byron, Commissioner; President	780	780
Pierre Fabre, Commissioner	720	780
Wayne Jacobs, Commissioner	720	660
A. J. Cigalli, Commissioner	<u>660</u>	<u>780</u>
	<u>\$ 4,260</u>	<u>\$ 4,440</u>

NOTE K - DEFEASANCE OF BONDS

On January 7, 1999, the District issued \$339,000 of General Obligation Refunding Bonds with an average interest rate of 4.15% to advance refund the 2002 through 2010 maturities of the Series 1991 General Obligation Bonds with an average interest rate of 7.00%.

The net proceeds of \$327,084 (after payment of \$11,916 of underwriters fee and issuance costs) plus \$38,000 of sinking fund monies were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust fund with an escrow agent to provide for the future debt service requirements. The advance refunding met the requirements of an in-substance defeasance and the bonds were removed from the Enterprise Fund. Of the funds transferred to the Escrow agent, \$58,625 was set aside to pay a portion of the interest on the remaining maturities of the 1991 bonds. This amount has been recorded as an asset (Prepaid Bond Interest) and will be reduced as interest payments are made by the Escrow Agent. A liability (Deferred Gain on Retirement of Bonds) of \$20,625 has also been recorded. This amount will be amortized over the life of the new bond as a reduction in scheduled interest payments.

The District advance refunded the bonds to reduce its total debt service payments over the life of the bonds by \$39,872 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$22,864.

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

(A LIMITED LIABILITY COMPANY)

*Certified Public Accountants*

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## 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 the St. Tammany Parish Water District No. 2 as of and for the years ended December 31, 1999 and 1998 and have issued our report thereon dated February 25, 2000. We conducted our audits in accordance with generally accepted auditing standards 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 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 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 for the information of management, the Rural and Economic Development Office and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

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

February 25, 2000