

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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1996 and 1995

	<u>1996</u>	<u>1995</u>
<b>Cash flows from operating activities:</b>		
Net operating income	\$ 55,071	\$ 33,608
Adjustments to reconcile net operating income to cash provided by operating activities:		
Depreciation and amortization	18,679	17,263
Increase in utility customer receivables	(2,999)	(1,399)
Decrease (increase) in inventory	(799)	2,180
Increase (decrease) in accrued expenses	(921)	586
Total adjustments	<u>13,859</u>	<u>18,629</u>
Net cash provided by operating activities	<u>68,930</u>	<u>52,237</u>
<b>Cash flows from non-capital financing activities:</b>		
Net receipts from motor deposits	1,803	1,803
Net cash provided by non-capital financing activities	<u>1,803</u>	<u>1,803</u>
<b>Cash flows from capital financing activities:</b>		
Principal paid on bonds	(37,000)	(35,000)
Interest paid on bonds	(38,248)	(40,834)
Ad valorem revenues, net	47,118	22,845
Purchases of fixed assets	<u>(38,865)</u>	<u>(2,619)</u>
Net cash used for capital financing activities	<u>(66,995)</u>	<u>(55,609)</u>
<b>Cash flows from investing activities:</b>		
Interest received on investments	15,818	16,694
Maturities of certificates of deposits	340,609	326,116
Purchases of certificates of deposits	<u>(329,880)</u>	<u>(525,652)</u>
Net cash provided by investing activities	<u>26,547</u>	<u>(82,842)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>28,385</b>	<b>9,266</b>
Cash and cash equivalents at beginning of year	<u>47,551</u>	<u>38,285</u>
Cash and cash equivalents at end of year	<u>\$ 75,936</u>	<u>\$ 47,551</u>

The accompanying notes are an integral part of these statements.

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

STATEMENT OF RETAINED EARNINGS

For the Years Ended December 31, 1994 and 1995

	<u>1994</u>	<u>1995</u>
Retained earnings at beginning of year	\$ 73,124	\$ 44,000
Net income	<u>26,690</u>	<u>28,094</u>
Retained earnings at end of year	<u>\$ 99,814</u>	<u>\$ 72,124</u>

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, 1996 and 1995

	<u>1996</u>	<u>1995</u>
Operating Revenue:		
Water revenue	\$ 233,565	\$ 234,408
Malpractice revenues	40,790	39,058
Tap and connect fees	13,125	18,250
Other revenue	1,038	1,452
Total operating revenue	<u>329,398</u>	<u>393,150</u>
Operating Expenses:		
Salaries	61,859	89,997
Employee benefits	6,387	10,193
Operating supplies	23,286	23,959
Depreciation and amortization	18,679	17,263
Insurance	14,345	11,847
Utilities and telephonic	12,529	12,484
Rent	10,428	10,428
Payroll taxes	7,233	7,096
Repair and maintenance	5,942	12,921
Legal and professional	5,250	5,216
Fringe and office supplies	4,875	5,899
Other	4,476	5,221
Parish assessment expense	4,289	4,145
Director fees	4,140	4,460
Travel, conferences and conventions	3,589	3,661
Utilities	1,138	2,242
Truck expenses	1,551	2,103
Total operating expenses	<u>324,323</u>	<u>331,542</u>
Net operating income	55,075	61,608
Non-Operating Revenue (Expense):		
Ad valorem revenue	48,856	24,120
Interest income	11,790	12,088
Interest expense	(57,997)	(40,447)
State pension deduction	(1,780)	(1,425)
Total non-operating revenue (expense)	<u>2,869</u>	<u>(5,664)</u>
Net income	<u>\$ 57,944</u>	<u>\$ 55,944</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, 1995 and 1994

LIABILITIES AND FUND EQUITY

	<u>1995</u>	<u>1994</u>
Current Liabilities (payable from unrestricted assets)		
Accrued on power	\$ 2,671	\$ 3,757
Current accrued compensated absence	<u>1,578</u>	<u>1,488</u>
Total current liabilities	<u>4,249</u>	<u>5,245</u>
Current Liabilities (payable from restricted assets)		
Accrued interest on bonds	11,515	12,560
Maturity principal and interest on bonds	1,891	1,891
Meter deposits	58,925	57,190
Current maturities of bonds payable	<u>58,080</u>	<u>57,080</u>
Total current liabilities (payable from restricted assets)	<u>129,211</u>	<u>131,681</u>
Long-Term Debt, net of current maturities		
Revenue bonds payable	86,000	188,000
Public improvement bonds payable	<u>420,000</u>	<u>420,000</u>
Total long-term debt	<u>506,000</u>	<u>608,000</u>
Total liabilities	636,460	637,926
Retained earnings	<u>148,814</u>	<u>72,124</u>
	<u>\$ 785,274</u>	<u>\$ 710,050</u>

The accompanying notes are an integral part of these statements.

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

BALANCE SHEETS

December 31, 1996 and 1995

ASSETS

	<u>1996</u>	<u>1995</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 56,852	\$ 41,215
Investments in certificates of deposit	58,864	65,568
Utility customers receivable, net	23,196	24,157
Accrued interest receivable	3,756	4,852
Due from other government agency	3,285	3,285
Inventory	<u>13,330</u>	<u>12,521</u>
Total current assets	<u>169,373</u>	<u>147,538</u>
<b>Restricted Assets</b>		
Cash and cash equivalents	59,889	6,756
Investment in certificates of deposit	<u>132,892</u>	<u>138,080</u>
Total restricted assets	<u>192,781</u>	<u>144,836</u>
<b>Fixed Assets</b>		
Plant and equipment at cost, net	425,622	465,408
Land	<u>59,563</u>	<u>59,563</u>
Total fixed assets	<u>485,185</u>	<u>524,971</u>
	<u>\$ 747,339</u>	<u>\$ 797,345</u>

The accompanying notes are an integral part of these statements.

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

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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, 1996 and 1995, 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. These 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, 1996 and 1995, 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 March 31, 1997, on our consideration of the internal control structure of St. Tammany Parish Water District No. 2 and on its compliance with laws and regulations.

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

March 31, 1997

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

COMPONENT UNIT  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

December 31, 1996 and 1995

Under provisions of state law, this report is a public document. A copy of the report has been furnished to the members of governing entity and other appropriate public officials. This 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 MAY 6 7 1999

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1996 and 1995

NOTE 1 - AD VALOREM TAXES - Continued

ad valorem taxes are budgeted for the year received, due to the Board of Commissioners' intention. 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 2 - 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, 1996 and 1995.

	<u>1996</u>	<u>1995</u>
Revenue:		
Bonds payable at January 1	\$ 129,000	\$ 148,000
Bonds retired	<u>(21,000)</u>	<u>(19,000)</u>
Bonds payable at December 31	<u>\$ 108,000</u>	<u>\$ 129,000</u>
Public Improvement:		
Bonds payable at January 1	\$ 452,000	\$ 468,000
Bonds retired	<u>(16,000)</u>	<u>(18,000)</u>
Bonds payable at December 31	<u>\$ 436,000</u>	<u>\$ 450,000</u>
Revenue Bonds:		
\$150,000 Waterworks Revenue Bonds dated June 1, 1972; balance due in annual principal installments of \$7,000 - \$12,000 plus semi-annual interest payments through June 1, 1997, with interest at 6%	\$ 12,000	\$ 23,000
\$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%	96,000	106,000
	<u>\$ 108,000</u>	<u>\$ 129,000</u>



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

NOTES TO FINANCIAL STATEMENTS

December 31, 1996 and 1995

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 24:317 and to the guides set forth in the Louisiana Municipal Audit and Accounting 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 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 2109, 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 2800 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, for 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 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.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1996 and 1995

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 fixed 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	3 - 40 years
Office equipment	3 - 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 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.

6. Utility Customer Receivables

Utility customer receivables on the accompanying balance sheets are considered to be fully collectible at December 31, 1996 and 1995. 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, 1996 and 1995

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:

Years of Service	Annual Earned
1 - 5	1 week
5 or more	2 weeks

Upon termination of service, employees are paid for unused annual vacation leave. Sick leave is carried 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 vacations and sick leave which have been earned but not taken as of December 31:

	1996	1995
Vacation	\$ -	\$ -
Sick leave	<u>1,578</u>	<u>1,488</u>
Total	<u>\$ 1,578</u>	<u>\$ 1,488</u>

9. Federal Income Taxes

The District is not subject to federal income taxes in accordance with the Internal Revenue Code (IRC) Section 113 regarding income of states, municipalities, political subdivisions, etc.

NOTE B - PLEDGE OF SECURITIES

At December 31, 1996 and 1995, the carrying amount of the District's total deposits (including cash and certificates of deposit) was \$368,652 and \$251,065, respectively, and the bank balance was \$289,939 and \$250,590, respectively. Under state law, these deposits, or the remaining 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, 1996 and 1995 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, 1996 and 1995

NOTE D - RESTRICTED ASSETS - Continued

<u>1996</u>	Cash and Cash Equivalents	Certificates of Deposit	Total
Revenue bonds	\$ 393	\$ 53,482	\$ 53,875
Public improvement bonds	1,754	27,025	28,781
Cash with paying agent	1,800	-	1,801
Water deposits	2,384	41,073	44,159
Replacement fund	-	15,520	15,520
Total restricted	<u>\$ 6,331</u>	<u>\$ 138,080</u>	<u>\$ 144,411</u>

In the current assets section of the balance sheet, \$957 of cash and \$59,866 of certificates of deposit as of December 31, 1996, (\$957 of cash and \$59,901 of certificates of deposit in 1995) represent remaining bond proceeds plus interest earned from public improvement bonds issued in 1993. 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, 1996:

Beginning cash and investments	\$ 28,281
Plus: Ad valorem receipts, net	47,116
Interest earned on certificates of deposit	2,146
Subtotal	<u>78,943</u>
Less: Principal payments on bonds	(16,000)
Interest payments on bonds	(51,898)
Bank charges	(113)
Ending cash and investments	<u>\$ 29,832</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, 1996. Delinquent taxes were delinquent on January 1, 1997. Revenues from

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1996 and 1995

NOTE P - (LONG)-TERM DEBT - Continued

	<u>1996</u>	<u>1995</u>
Public Improvement Bonds:		
\$100,000 Public Improvement Bonds dated June 1, 1972; balance due in annual principal installments of \$1,000, \$7,000 - \$9,000 plus semi-annual interest payments through December 1, 1997; with interest at 5.25% collateralized by ad valorem taxes	\$ 1,000	\$ 2,000
\$340,000 Public Improvement Bonds dated January 1, 1991; balance due in annual principal installments of \$5,000, \$15,000 - \$35,000 plus semi-annual interest payments through March 1, 2000; with interest at 10% collateralized by ad valorem taxes	435,000	450,000
	<u>\$ 436,000</u>	<u>\$ 452,000</u>

The annual requirements to amortize all bonds outstanding as of December 31, 1996 including interest payments are as follows:

	Revenue <u>Bonds</u>	Public Improvement <u>Bonds</u>
1997	\$ 27,360	\$ 45,440
1998	15,200	48,000
1999	14,790	47,295
2000	15,280	45,855
2001	14,680	40,113
Thereafter	<u>44,000</u>	<u>453,825</u>
	171,060	690,638
Less: Interest	<u>(23,060)</u>	<u>(25,638)</u>
	<u>\$ 148,000</u>	<u>\$ 665,000</u>

One requirement of the 1972 Revenue Bonds is for the District to maintain a debt service ratio of 1 to 1. At December 31, 1996, this ratio was 1.02 to 1. The District has \$24,675 restricted cash and certificates of deposit in reserve for these Revenue Bonds, which have a principal balance of \$108,000, at December 31, 1996.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1996 and 1995

**NOTE G - FIXED ASSETS**

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

	<u>1996</u>	<u>1995</u>
Machinery and equipment	\$ 976,815	\$ 947,821
Buildings	20,000	20,000
Office equipment	13,150	12,741
Less: accumulated depreciation	<u>(586,282)</u>	<u>(577,186)</u>
Balance at end of year	<u>\$ 423,683</u>	<u>\$ 403,436</u>

**NOTE H - RETAINED EARNINGS**

Retained earnings for the year ended December 31, 1996 and 1995 consist of the following:

	<u>1996</u>	<u>1995</u>
Reserved:		
Reserve for revenue bonds	\$ 31,368	\$ 31,183
Reserve for public improvement bonds	2,823	1,926
Reserve for water deposits	9,738	7,348
Reserve for replacement	19,618	13,220
Unreserved	<u>89,267</u>	<u>18,221</u>
	<u>\$ 148,514</u>	<u>\$ 72,128</u>

**NOTE I - COMMITMENTS**

St. Tammany Parish Water District No. 2 rents their facility for \$805 monthly from a member of the Board of Commissioners. The rental expense totaled \$10,428 for each of the years ended December 31, 1996 and 1995.

**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>1996</u>	<u>1995</u>
Bill Ferry, Commissioner, Sec.-Treasurer	\$ 1,440	\$ 1,440
R. L. Byron, Commissioner, President	668	780
Pierre Felber, Commissioner	720	780
Julian Mathies, Commissioner, Vice-President	720	780
A. J. Cypell, Commissioner	<u>680</u>	<u>870</u>
	<u>\$ 4,128</u>	<u>\$ 4,450</u>

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

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

We have audited the component unit financial statements of St. Tammany Parish Water District No. 2 as of and for the years ended December 31, 1996 and 1995 and have issued our report thereon dated March 31, 1997.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States; the provisions of the Compliance Supplement for Single Audits of State and Local Governments; and Circular A-128, Audits of State and Local Governments, published by the Office of Management and Budget. These 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.

The management of St. Tammany Parish Water District No. 2 is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the component unit financial statements of St. Tammany Parish Water District No. 2 for the years ended December 31, 1996 and 1995, we obtained an understanding of its internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our



opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management and others within the organization as well as the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

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

March 31, 1997

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

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

We have audited the component unit financial statements of St. Tammany Parish Water District No. 2 as of and for the years ended December 31, 1996 and 1997 and have issued our report thereon dated March 31, 1997.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations, contracts, and grants applicable to St. Tammany Parish Water District No. 2 is the responsibility of the District's management. As part of obtaining reasonable assurance about whether the component unit financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with each provision. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of management and others within the organization as well as the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

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

March 31, 1997

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

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## INDEPENDENT AUDITORS' REPORT ON FEDERAL FINANCIAL ASSISTANCE PROGRAMS INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

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

We have audited the component unit financial statements of St. Tammany Parish Water District No. 2 as of and for the years ended December 31, 1996 and 1995, and have issued our report thereon dated March 31, 1997.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-138, *Audit of State and Local Governments*. These standards and OMB Circular A-138 require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement and about whether St. Tammany Parish Water District No. 2 complied with laws and regulations, noncompliance with which would be material to a federal financial assistance program.

In planning and performing our audit for the years ended December 31, 1996 and 1995, we considered the internal control structure of St. Tammany Parish Water District No. 2 in order to determine our auditing procedures for the purpose of expressing our opinion on St. Tammany Parish Water District No. 2's component unit financial statements and to report on the internal control structure in accordance with OMB Circular A-138. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the component unit financial statements in a separate report dated March 31, 1997.

The management of St. Tammany Parish Water District No. 2 is responsible for establishing and maintaining an internal control structure. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of component unit financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations.

The Board of Commissioners  
St. Tammany Parish Water District No. 2

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs into the following categories: reporting and special reserve requirements.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended December 31, 1976, the St. Tammany Parish Water District No. 2 had no major federal assistance and 100% of its federal financial assistance was in the form of a loan under the Farmers Home Administration's Loans for Water and Waste Disposal Systems for Rural Communities.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we have considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to non-major programs. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program 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 structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management and others within the organization as well as the Louisiana Legislative Auditors. However, this report is a matter of public record and its distribution is not limited.

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

March 31, 1987

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

AN LIMITED LIABILITY COMPANY

Credit/Field Accountants

P.O. Box 1962

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO NON-MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS

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

We have audited the component unit financial statements of St. Tammany Parish Water District No. 2, Covington, Louisiana, as of and for the two years ended December 31, 1996 and 1995, and have issued our report thereon dated March 31, 1997.

In connection with our audit of those component unit financial statements and with our consideration of St. Tammany Parish Water District No. 2's internal control structure used to administer federal financial assistance programs, as required by Office of Management and Budget Circular A-128, *Audit of State and Local Governments*, we selected certain transactions applicable to certain non-major federal financial assistance programs.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed that are applicable to these transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on St. Tammany Parish Water District No. 2's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of these procedures disclosed no material instances of non-compliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that St. Tammany Parish Water District No. 2 had not complied, in all material respects, with these requirements.

This report is intended for the information of management and others within the organization as well as the Louisiana Legislative Auditor. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

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

March 31, 1997

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1986 and 1985

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 \$2,756 for 1986 (\$4,852 for 1985).

NOTE C - CASH AND CASH EQUIVALENTS

At December 31, 1986 and 1985, cash and cash equivalents for both current and restricted assets consisted of the following:

	1986	1985
Cash on hand and in bank	\$ 75,091	\$ 47,551

NOTE D - RESTRICTED ASSETS

Resolutions authorizing the issuance of two Waterworks Revenue Bonds (one dated June 1, 1972, series 1972, for \$150,000 and the other dated September 12, 1979, series 1979, for \$105,000) provided for certain restrictions of assets of St. Tammany Parish Water District No. 2. These requirements have been met as of December 31, 1986 and 1985.

Restricted cash and investments follow:

	1986	Cash and Cash Equivalents	Certificates of Deposit	Total
Revenue bonds	\$ 17,122	\$ 37,953		\$ 55,075
Public improvement bonds	715	27,306		28,021
Cash with paying agent	1,800	-		1,800
Money deposits	250	48,419		48,669
Repayment fund		35,618		35,618
Total restricted	\$ 19,887	\$ 132,982		\$ 152,786