

**OFFICIAL  
FILE COPY  
DO NOT SEND OUT**

*Do not remove  
copies from this  
copy and place  
back in file*

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

COMPONENT UNIT  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

December 31, 1997 and 1996

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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: MAY 27 1998

## CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	3
COMPONENT UNIT FINANCIAL STATEMENTS	
BALANCE SHEETS	4
STATEMENTS OF REVENUES AND EXPENSES	6
STATEMENTS OF RETAINED EARNINGS	7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT <i>ACCOUNTING STANDARDS</i>	17

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

A LIMITED LIABILITY COMPANY  
*Chartered Public Accountants*  
P.O. Box 1662  
Covington, Louisiana 70434-1662

Samuel C. Smith, CPA  
Patrick "Steve" Huval, CPA

1504-892-6881 - Covington  
1504-892-6882 - PAJ

## 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, 1997 and 1996, 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 aspects, the financial position of St. Tammany Parish Water District No. 2 as of December 31, 1997 and 1996, 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 20, 1998, 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.*

March 20, 1998

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

BALANCE SHEETS

December 31, 1997 and 1996

ASSETS

	<u>1997</u>	<u>1996</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 140,077	\$ 58,852
Investments in certificates of deposit	-	59,864
Utility customers receivable, net	25,729	27,156
Accrued interest receivable	2,148	2,756
Due from other government agency	3,205	3,205
Inventory	<u>12,153</u>	<u>12,320</u>
<b>Total current assets</b>	<u>203,312</u>	<u>162,333</u>
<b>Restricted Assets</b>		
Cash and cash equivalents	15,089	19,889
Investment in certificates of deposit	<u>118,325</u>	<u>132,897</u>
<b>Total restricted assets</b>	<u>133,414</u>	<u>152,786</u>
<b>Fixed Assets</b>		
Plant and equipment at cost, net	454,353	423,822
Land	<u>10,581</u>	<u>10,581</u>
<b>Total fixed assets</b>	<u>464,934</u>	<u>434,403</u>
	<u>\$ 701,640</u>	<u>\$ 749,522</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, 1997 and 1996

LIABILITIES AND FUND EQUITY

	<u>1997</u>	<u>1996</u>
Current Liabilities (payable from unrestricted assets)		
Accrued expenses	\$ 5,283	\$ 2,671
Current unused compensated absences	<u>924</u>	<u>1,578</u>
Total current liabilities	<u>6,207</u>	<u>4,249</u>
Current Liabilities (payable from restricted assets)		
Accrued interest on bonds	11,568	11,515
Matured principal and interest on bonds	-	1,841
Water deposits	41,045	38,923
Current maturities of bonds payable	<u>31,088</u>	<u>38,080</u>
Total current liabilities (payable from restricted assets)	<u>83,345</u>	<u>90,239</u>
Long-Term Debt, net of current maturities		
Revenue bonds payable	75,000	86,000
Public improvement bond payable	<u>400,000</u>	<u>420,000</u>
Total long-term debt	<u>475,000</u>	<u>506,000</u>
Total liabilities	564,554	600,488
Retained earnings	<u>310,058</u>	<u>148,818</u>
	<u>\$ 783,612</u>	<u>\$ 749,306</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, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Operating Revenue		
Water revenue	\$ 126,204	\$ 223,565
Maintenance revenue	37,135	40,790
Tap and connect fees	23,715	13,125
Other revenue	<u>1,429</u>	<u>1,813</u>
Total operating revenue	<u>188,483</u>	<u>279,293</u>
Operating Expenses		
Salaries	93,343	91,959
Employee benefits	5,633	6,187
Operating supplies	38,319	27,296
Depreciation and amortization	23,225	18,679
Insurance	21,538	14,345
Utilities and telephone	13,043	13,329
Rent	10,428	10,428
Payroll taxes	6,381	7,232
Repairs and maintenance	8,723	5,942
Legal and professional	5,890	5,710
Postage and office supplies	3,188	4,875
Other	3,711	4,473
Public awareness expense	4,431	4,289
Director fees	3,928	4,140
Travel, conferences and conventions	4,318	3,384
Utilities	1,769	1,120
Truck expense	<u>1,408</u>	<u>1,594</u>
Total operating expenses	<u>251,384</u>	<u>224,322</u>
Net operating income	37,099	55,071
Non-Operating Revenue (Expense)		
Ad valorem revenue	58,336	48,836
Interest income	12,082	11,780
Interest expense	(33,411)	(27,197)
State pension deduction	<u>(1,802)</u>	<u>(1,268)</u>
Total non-operating revenue (expense)	<u>34,195</u>	<u>31,141</u>
Net income	<u>\$ 71,294</u>	<u>\$ 86,212</u>

The accompanying notes are an integral part of these statements.

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

STATEMENT RETAINED EARNINGS

For the Years Ended December 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Retained earnings at beginning of year	\$ 148,814	\$ 72,134
Net income	<u>76,668</u>	<u>76,668</u>
Retained earnings at end of year	<u>\$ 225,482</u>	<u>\$ 148,814</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, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Cash flows from operating activities:		
Net operating income	\$ 37,099	\$ 55,071
Adjustments to reconcile net operating income to cash provided by operating activities:		
Depreciation and amortization	21,225	18,679
Decrease (increase) in utility customer receivables	1,403	(2,999)
Decrease (increase) in inventory	1,167	(799)
Increase (decrease) in accrued expenses	2,614	(991)
Decrease in matured principal and interest on bonds	(1,891)	-
Decrease in accrued compensated absences	(656)	-
Total adjustments	<u>25,978</u>	<u>15,890</u>
Net cash provided by operating activities	<u>63,077</u>	<u>70,961</u>
Cash flows from non-capital financing activities:		
Net receipts from water deposits	<u>2,122</u>	<u>1,892</u>
Net cash provided by non-capital financing activities	<u>2,122</u>	<u>1,892</u>
Cash flows from capital financing activities:		
Principal paid on bonds	(18,909)	(17,909)
Interest paid on bonds	(15,626)	(18,248)
Adv. valuer's services, net	56,524	47,116
Purchase of fixed assets	<u>(52,850)</u>	<u>(38,865)</u>
Net cash used for capital financing activities	<u>(21,860)</u>	<u>(27,907)</u>
Cash flows from investing activities:		
Interest received on investments	12,659	11,816
Maturities of certificates of deposit	194,232	140,689
Purchase of certificates of deposits	<u>(279,814)</u>	<u>(378,806)</u>
Net cash provided by investing activities	<u>27,077</u>	<u>(12,301)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>81,229</b>	<b>28,399</b>
Cash and cash equivalents at beginning of year	<u>75,041</u>	<u>47,351</u>
Cash and cash equivalents at end of year	<u><b>\$ 157,170</b></u>	<u><b>\$ 75,041</b></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, 1997 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 practices also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guidelines 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.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1997 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 depreciable 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 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 as December 31, 1997 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, 1997 and 1996

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

PASB 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 - 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>1997</u>	<u>1996</u>
Vacation	\$ -	\$ -
Sick leave	<u>504</u>	<u>1,578</u>
Total	<u>\$ 504</u>	<u>\$ 1,578</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, 1997 and 1996, the carrying amount of the District's total deposits (including cash and certificates of deposit) was \$271,443 and \$288,632, respectively, and the bank balances was \$279,775 and \$369,830, 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, 1997 and 1996 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, 1997 and 1996

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 \$30 or accrued interest on certificates of deposit of \$2,148 for 1997 (\$2,738 for 1996).

NOTE C - CASH AND CASH EQUIVALENTS

At December 31, 1997 and 1996, cash and cash equivalents for both current and restricted assets consisted of the following:

	<u>1997</u>	<u>1996</u>
Cash on hand and in bank:	<u>\$ 1,571,170</u>	<u>\$ 75,941</u>

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 \$206,000) provided for certain restrictions of assets of St. Tammany Parish Water District No. 2. These requirements have been met as of December 31, 1997 and 1996.

Restricted cash and investments follow:

1997	Cash and Cash <u>Equivalents</u>	Certificates <u>of Deposit</u>	<u>Total</u>
Revenue bonds	\$ 48	\$ 28,483	\$ 28,483
Public improvement bonds	10,538	29,828	40,364
Money deposits	4,517	90,593	95,110
Replacement fund	<u>          </u>	<u>9,442</u>	<u>9,442</u>
Total restricted	<u>\$ 15,093</u>	<u>\$ 118,346</u>	<u>\$ 133,439</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1997 and 1998

NOTE D - RESTRICTED ASSETS - Continued

1998	Cash and Cash Equivalents	Certificates of Deposit	Total
Revenue bonds	\$ 17,122	\$ 77,503	\$ 94,625
Public improvement bonds	715	27,516	28,031
Cash with paying agent	1,800	-	1,800
Meter deposits	231	48,418	48,649
Replacement fund	-	19,618	19,618
Total restricted	<u>\$ 19,868</u>	<u>\$ 1,132,282</u>	<u>\$ 1,152,150</u>

In the current assets section of the balance sheet, \$43,442 of cash as of December 31, 1997, (\$987 of cash and \$29,864 of certificates of deposit in 1998) represent remaining bond proceeds plus interest earned from public improvement bonds issued in 1991. 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, 1997:

Beginning cash and investments	\$ 28,781
Plus: Ad valorem receipts, net	56,524
Interest earned on certificates of deposits	<u>1,851</u>
Subtotal	87,156
Less: Principal payments on bonds	(18,800)
Interest payments on bonds	(39,490)
Bank charges	<u>(1,000)</u>
Ending cash and investments	<u>\$ 40,166</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, 1997. Billed taxes were delinquent on January 1, 1998. Revenues from

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1997 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, 1997 and 1998.

	<u>1997</u>	<u>1998</u>
Revenue:		
Bonds payable at January 1	\$ 188,000	\$ 179,000
Bonds retired	<u>(22,000)</u>	<u>(22,000)</u>
Bonds payable at December 31	<u>\$ 166,000</u>	<u>\$ 157,000</u>
Public Improvement:		
Bonds payable at January 1	\$ 456,000	\$ 452,000
Bonds retired	<u>(18,000)</u>	<u>(18,000)</u>
Bonds payable at December 31	<u>\$ 438,000</u>	<u>\$ 434,000</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 8%	\$ -	\$ 12,000
\$204,000 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 8%	\$6,000	\$6,000
	<u>\$ 6,000</u>	<u>\$ 18,000</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1997 and 1996

NOTE F - LONG-TERM DEBT - Continued

	<u>1997</u>	<u>1996</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 5.20% collateralized by ad valorem taxes	\$ -	\$ 1,000
\$200,000 Public Improvement Bonds dated January 1, 1990; balance due in annual principal installments of \$3,000, \$15,000 - \$33,000 plus semi-annual interest payments through March 1, 2010; with interest at 10% collateralized by ad valorem taxes	428,000	423,000
	<u>\$ 428,000</u>	<u>\$ 424,000</u>

The annual requirements to amortize all bonds outstanding as of December 31, 1997 (including interest payments) are as follows:

	Revenue <u>Bonds</u>	Public Improvement <u>Bonds</u>
1998	\$ 15,300	\$ 48,910
1999	14,750	47,295
2000	15,200	45,825
2001	14,600	43,313
2002	15,000	47,575
Thereafter	<u>29,050</u>	<u>406,250</u>
	103,900	645,198
Less: interest	<u>(17,800)</u>	<u>(223,390)</u>
	<u>\$ 86,100</u>	<u>\$ 421,808</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1997 and 1996

NOTE G - FIXED ASSETS

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

	<u>1997</u>	<u>1996</u>
Machinery and equipment	\$ 1,015,823	\$ 976,815
Buildings	28,860	28,860
Office equipment	9,655	12,150
Less: accumulated depreciation	<u>(528,385)</u>	<u>(586,362)</u>
Balance at end of year	<u>\$ 455,953</u>	<u>\$ 425,673</u>

NOTE H - RETAINED EARNINGS

Retained earnings for the year ended December 31, 1997 and 1996 consist of the following:

	<u>1997</u>	<u>1996</u>
Reserved:		
Reserve for revenue bonds	\$ 16,159	\$ 31,168
Reserve for public improvement bonds	10,400	2,023
Reserve for meter deposits	14,864	9,738
Reserve for replacement	9,447	19,638
Unreserved	<u>169,018</u>	<u>86,767</u>
	<u>\$ 219,888</u>	<u>\$ 149,334</u>

NOTE I - COMMITMENTS

St. Tammany Parish Water District No. 2 rents their facility for \$869 monthly from a member of the Board of Commissioners. The rental expense totaled \$10,428 for each of the years ended December 31, 1997 and 1996.

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>1997</u>	<u>1996</u>
Bill Ferris, Commissioner, Sec.-Treasurer	\$ 1,440	\$ 1,440
R. L. Byron, Commissioner, President	680	680
Fiona Fabro, Commissioner	720	720
Julian Mathies, Commissioner, Vice-President	420	720
A. J. Cigall, Commissioner	<u>680</u>	<u>680</u>
	<u>\$ 3,940</u>	<u>\$ 4,180</u>



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

AN LIMITED LIABILITY COMPANY

Certified Public Accountants

P.O. Box 1462

Covington, Louisiana 70434-1662

Samuel E. Hurval, CPA,  
Paul "Steve" Hurval, CPA

(504) 835-6611 - Covington  
(504) 870-4000 - P.O.

## 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 year ended December 31, 1997 and have issued our report thereon dated March 20, 1998. We conducted our audit 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, Hurval & Associates, L.L.C.*

March 20, 1998