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

COMPONENT UNIT
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

December 31, 1998 and 1997

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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.

APR 26 1999

Release Date _____

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(A LIMITED LIABILITY COMPANY)

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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, 1998 and 1997, 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.

Except as described in the following paragraph, 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.

Governmental Accounting Standards Board Technical Bulletin 98-1, Disclosures about Year 2000 Issues, requires disclosure of certain matters regarding the year 2000 issue in order for financial statements to be prepared in conformity with generally accepted accounting principles. Such required disclosures include:

- any significant amount of resources committed to make computer systems and other electronic equipment year 2000-compliant;
- a general description of the year 2000 issue, including a description of the stages of work in process or completed as of the end of the reporting period to make computer systems and other electronic equipment critical to conducting operations year 2000-compliant; and
- the additional stages of work necessary for making the computer systems and other electronic equipment year 2000-compliant.

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The St. Tammany Parish Water District No. 2 has omitted such disclosures. We do not provide assurance that the St. Tammany Parish Water District No. 2 is or will be year 2000 ready, that the St. Tammany Parish Water District No. 2's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the St. Tammany Parish Water District No. 2 does business will be year 2000 ready.

In our opinion, except for the omission of the information discussed in the preceding paragraph, 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, 1998 and 1997, 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 1, 1999, 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, Hural & Associates, L.L.C.
March 1, 1999

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

BALANCE SHEETS

December 31, 1998 and 1997

ASSETS

	<u>1998</u>	<u>1997</u>
Current Assets		
Cash and cash equivalents	\$ 52,927	\$ 142,077
Investments in certificates of deposit	72,661	-
Utility customers receivable, net	27,725	25,729
Accrued interest receivable	5,582	2,148
Due from other government agency	3,205	3,205
Inventory	<u>14,574</u>	<u>12,153</u>
Total current assets	<u>176,674</u>	<u>185,312</u>
Restricted Assets		
Cash and cash equivalents	7,591	15,093
Investment in certificates of deposit	<u>150,712</u>	<u>118,323</u>
Total restricted assets	<u>158,303</u>	<u>133,416</u>
Construction in progress	31,996	-
Fixed Assets		
Plant and equipment at cost, net	442,287	454,353
Land	<u>10,561</u>	<u>10,561</u>
Total fixed assets	<u>452,848</u>	<u>464,914</u>
	<u>\$ 819,821</u>	<u>\$ 783,642</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, 1998 and 1997

LIABILITIES AND FUND EQUITY

	<u>1998</u>	<u>1997</u>
Current Liabilities (payable from unrestricted assets)		
Accrued expenses	\$ 6,283	\$ 5,285
Current unused compensated absences	<u>2,203</u>	<u>924</u>
Total current liabilities	<u>8,486</u>	<u>6,209</u>
Current Liabilities (payable from restricted assets)		
Accrued interest on bonds	10,560	11,300
Meter deposits	41,435	41,045
Current maturities of bonds payable	<u>31,000</u>	<u>31,000</u>
Total current liabilities (payable from restricted assets)	<u>82,995</u>	<u>83,345</u>
Long-Term Debt, net of current maturities		
Revenue bonds payable	64,000	75,000
Public improvement bond payable	<u>380,000</u>	<u>400,000</u>
Total long-term debt	<u>444,000</u>	<u>475,000</u>
Total liabilities	535,481	564,554
Retained earnings	<u>284,340</u>	<u>219,088</u>
	<u>\$ 819,821</u>	<u>\$ 783,642</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, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Operating Revenue		
Water revenue	\$ 239,510	\$226,204
Maintenance revenues	36,965	37,135
Tap and connect fees	10,240	23,715
Other revenue	<u>100</u>	<u>1,429</u>
Total operating revenue	<u>286,815</u>	<u>288,483</u>
Operating Expenses		
Salaries	114,346	95,545
Employee benefits	5,604	5,633
Operating supplies	23,576	38,310
Depreciation and amortization	27,294	23,225
Insurance	10,432	21,539
Utilities and telephone	14,224	13,043
Rent	12,000	10,428
Payroll taxes	9,203	6,381
Repair and maintenance	5,423	6,725
Legal and professional	6,140	5,860
Postage and office supplies	4,868	5,198
Other	8,815	3,711
Parish assessment expense	4,674	4,431
Director fees	4,440	3,920
Travel, conferences and conventions	3,332	4,318
Uniforms	1,271	1,709
Truck expenses	<u>1,628</u>	<u>1,408</u>
Total operating expenses	<u>257,270</u>	<u>251,384</u>
Net operating income	29,545	37,099
Non-Operating Revenue (Expense)		
Ad valorem revenue	60,010	58,336
Interest income	11,424	12,062
Loss on sale of fixed assets	(1,441)	-
Interest expense	(32,470)	(35,411)
State pension deduction	<u>(1,816)</u>	<u>(1,812)</u>
Total non-operating revenue (expense)	<u>35,707</u>	<u>33,175</u>
Net income	<u>\$ 65,252</u>	<u>\$ 70,274</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, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Retained earnings at beginning of year	\$ 219,088	\$ 148,814
Net income	<u>65,252</u>	<u>70,274</u>
Retained earnings at end of year	<u>\$ 284,340</u>	<u>\$ 219,088</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, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Net operating income	\$ 29,545	\$ 37,099
Adjustments to reconcile net operating income to cash provided by operating activities		
Depreciation and amortization	27,532	23,225
Decrease (increase) in utility customer receivables	(1,996)	1,427
Decrease (increase) in inventory	(2,421)	1,167
Increase in accrued expenses	998	2,614
Decrease in matured principal and interest on bonds	-	(1,801)
Increase (decrease) in accrued compensated absences	<u>1,279</u>	<u>(654)</u>
Total adjustments	<u>25,392</u>	<u>25,978</u>
Net cash provided by operating activities	<u>54,937</u>	<u>63,077</u>
 Cash flows from non-capital financing activities:		
Net receipts from meter deposits	<u>390</u>	<u>2,122</u>
Net cash provided by non-capital financing activities	<u>390</u>	<u>2,122</u>
 Cash flows from capital financing activities:		
Principal paid on bonds	(31,000)	(38,000)
Interest paid on bonds	(33,210)	(35,626)
Ad valorem revenue, net	58,194	56,524
Proceeds from sale of fixed assets	500	-
Construction costs	(31,996)	-
Purchase of fixed assets	<u>(17,407)</u>	<u>(53,956)</u>
Net cash used for capital financing activities	<u>(54,919)</u>	<u>(71,058)</u>
 Cash flows from investing activities:		
Interest received on investments	7,990	12,650
Maturities of certificates of deposit	179,358	354,252
Purchase of certificates of deposits	<u>(284,408)</u>	<u>(279,814)</u>
Net cash provided by investing activities	<u>(97,060)</u>	<u>87,088</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	(96,652)	81,229
 Cash and cash equivalents at beginning of year	<u>157,170</u>	<u>75,941</u>
 Cash and cash equivalents at end of year	<u>\$ 60,518</u>	<u>\$ 157,170</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, 1998 and 1997

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.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1998 and 1997

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, 1998 and 1997. 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, 1998 and 1997

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>1998</u>	<u>1997</u>
Sick leave	\$ -	\$ -
Vacation	<u>2,203</u>	<u>924</u>
Total	<u>\$ 2,203</u>	<u>\$ 924</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, 1998 and 1997, the carrying amount of the District's total deposits (including cash and certificates of deposit) was \$283,842 and \$275,443, respectively, and the bank balance was \$285,065 and \$279,775, 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, 1998 and 1997 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, 1998 and 1997

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 \$5,582 for 1998 (\$2,148 for 1997).

NOTE C - CASH AND CASH EQUIVALENTS

At December 31, 1998 and 1997, cash and cash equivalents for both current and restricted assets consisted of the following:

	<u>1998</u>	<u>1997</u>
Cash on hand and in bank	<u>\$ 60,518</u>	<u>\$157,170</u>

NOTE D - RESTRICTED ASSETS

Resolutions authorizing the issuance of a Waterworks Revenue Bond 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, 1998 and 1997.

Restricted cash and investments follow:

	<u>1998</u>			<u>Total</u>
	<u>Cash and Cash</u>	<u>Certificates</u>		
	<u>Equivalents</u>	<u>of Deposit</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>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1998 and 1997

NOTE D - RESTRICTED ASSETS - Continued

	<u>1997</u>	<u>Cash and Cash Equivalents</u>	<u>Certificates of Deposit</u>	<u>Total</u>
Revenue bonds	\$ 40	\$ 28,455		\$ 28,495
Public improvement bonds	10,536	29,828		40,364
Meter deposits	4,517	50,593		55,110
Replacement fund	-	9,447		9,447
Total restricted	<u>\$ 15,093</u>	<u>\$ 118,323</u>		<u>\$ 133,416</u>

In the current assets section of the balance sheet, \$3,442 of cash and \$60,000 in a certificate of deposit as of December 31, 1998, (\$63,442 of cash in 1997) 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, 1998:

Beginning cash and investments	\$ 40,364
Plus: Ad valorem receipts, net	58,193
Interest earned on certificates of deposits	<u>1,620</u>
Subtotal	59,813
Less: Principal payments on bonds	(20,000)
Interest payments on bonds	<u>(28,910)</u>
Ending cash and investments	<u>\$ 51,267</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, 1998. Billed taxes were delinquent on January 1, 1999. Revenues from

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1998 and 1997

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, 1998 and 1997.

	<u>1998</u>	<u>1997</u>
Revenue:		
Bonds payable at January 1	\$ 86,000	\$ 108,000
Bonds retired	<u>(11,000)</u>	<u>(22,000)</u>
Bonds payable at December 31	<u>\$ 75,000</u>	<u>\$ 86,000</u>
Public Improvement:		
Bonds payable at January 1	\$ 420,000	\$ 436,000
Bonds retired	<u>(20,000)</u>	<u>(16,000)</u>
Bonds payable at December 31	<u>\$ 400,000</u>	<u>\$ 420,000</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%	\$ 75,000	\$ 86,000
	<u>\$ 75,000</u>	<u>\$ 86,000</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1998 and 1997

NOTE F - LONG-TERM DEBT - Continued

	<u>1998</u>	<u>1997</u>
Public Improvement Bonds:		
\$500,000 Public Improvement Bonds dated January 1, 1991; balance due in annual principal installments of \$5,000, \$15,000 - \$55,000 plus semi-annual interest payments through March 1, 2010; with interest at 10% collateralized by ad valorem taxes	\$ 400,000	\$ 420,000
	<u> </u>	<u> </u>
	<u>\$ 400,000</u>	<u>\$ 420,000</u>

The annual requirements to amortize all bonds outstanding as of December 31, 1998 including interest payments are as follows:

	<u>Revenue Bonds</u>	<u>Public Improvement Bonds</u>
1999	\$ 14,750	\$ 47,295
2000	15,200	45,855
2001	14,600	49,313
2002	15,000	47,575
2003	14,350	51,700
Thereafter	<u>14,700</u>	<u>354,550</u>
	88,600	596,288
Less: interest	<u>(13,600)</u>	<u>(196,288)</u>
	<u>\$ 75,000</u>	<u>\$ 400,000</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1998 and 1997

NOTE G - FIXED ASSETS

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

	<u>1998</u>	<u>1997</u>
Machinery and equipment	\$1,024,534	\$1,015,023
Buildings	20,060	20,060
Office equipment	12,255	9,655
Less: accumulated depreciation	<u>(614,562)</u>	<u>(590,385)</u>
 Balance at end of year	 <u>\$ 442,287</u>	 <u>\$ 454,353</u>

NOTE H - RETAINED EARNINGS

Retained earnings for the year ended December 31, 1998 and 1997 consist of the following:

	<u>1998</u>	<u>1997</u>
Reserved:		
Reserve for revenue bonds	\$ 17,538	\$ 16,159
Reserve for public improvement bonds	21,837	10,400
Reserve for meter deposits	20,015	14,064
Reserve for replacement	15,918	9,447
Unreserved	<u>209,032</u>	<u>169,018</u>
	 <u>\$ 284,340</u>	 <u>\$ 219,088</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 and \$10,428 for each of the years ended December 31, 1998 and 1997, respectively.

As of December 31, 1998, the St. Tammany Parish Water District No. 2 had entered into construction contracts for a new well and storage tank totaling \$524,217. At December 31, 1998, \$31,996 of construction related expenses have been recorded as construction in progress.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1998 and 1997

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>1998</u>	<u>1997</u>
Bill Ferrer, Commissioner; Sec.-Treasurer	\$ 1,440	\$ 1,440
R. L. Byron, Commissioner; President	780	660
Pierre Fabre, Commissioner	780	720
Julian Mathies, Commissioner; Vice-President	-	420
Wayne Jacobs, Commissioner	660	720
A. J. Cigalli, Commissioner	<u>780</u>	<u>680</u>
	<u>\$ 4,440</u>	<u>\$ 4,640</u>

NOTE K - SUBSEQUENT EVENTS

Subsequent to December 31, 1998, the St. Tammany Parish Water District No. 2 issued \$335,000 of Series 1999 General Obligation Refunding bonds which were used to defease the 2002 to 2010 maturities of the 1991 General Obligation Bond issue. The District also issued \$500,000 of series 1999 Water Revenue bonds, the proceeds of which will be used to construct a new well and storage tank facility.