

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

Annual Financial Statements

December 31, 2013 and 2012

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Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of St. Tammany Parish Water District No. 2 (the District), a component unit of St. Tammany Parish, Louisiana, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2013 and 2012, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, beginning on page 4, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2014, on our consideration of St. Tammany Parish Water District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Covington, LA
April 23, 2014

REQUIRED SUPPLEMENTARY INFORMATION

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

Management's Discussion and Analysis

The Management's Discussion and Analysis of St. Tammany Parish Water District No. 2's (the District) financial performance presents a narrative overview and analysis of the District's financial activities for the year ended December 31, 2013. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the financial statements.

Financial Highlights

The District's assets exceeded its liabilities at the close of fiscal year 2013 by \$1,060,311, which represents a 6% increase from last fiscal year. Of this amount, \$650,774 (unrestricted net position) may be used to meet the District's ongoing obligations to its users.

The District's operating revenue decreased by \$5,012 (or 1%) due to a decrease in water revenue. This decrease is primarily attributable to an above average rain season that led customers to lower water usage. Operating expenses increased by \$18,202 (or 3%), due to an increase in purchasing prices such as lead free fittings as required by the State of Louisiana. As a result, the District had a net operating income of \$17,555 for 2013 as compared to a net operating income of \$40,769 for 2012.

Overview of the Financial Statements

These financial statements consist of two sections: Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

Basic Financial Statements

The basic financial statements present information for the District as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statements of Net Position; the Statements of Revenues and Expenses; the Statements of Changes in Net Position; and the Statements of Cash Flows.

The Statements of Net Position present the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statements of Revenues and Expenses and the Statements of Changes in Net Position present information showing how the District's net position changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statements of Cash Flows present information showing how the District's cash changed as a result of current year operations. The statements of cash flows are prepared using the direct method and include the reconciliation of operating income to net cash provided by operating activities (indirect method) as required by GASB 34.

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

Management's Discussion and Analysis

Financial Analysis of the District

	2013	2012
Current and Restricted Assets	\$ 1,960,754	\$ 939,929
Capital Assets, Net	1,118,571	1,122,401
Other Assets	200	16,812
Total Assets	3,079,525	2,079,142
Current and Other Liabilities	232,214	171,733
Long-Term Debt Outstanding	1,787,000	906,000
Total Liabilities	2,019,214	1,077,733
Net Position		
Net Investment in Capital Assets	222,651	216,402
Restricted	186,886	155,446
Unrestricted	650,774	629,561
Total Net Position	\$ 1,060,311	\$ 1,001,409

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

The District's net position increased by \$58,902, from December 31, 2012 to December 31, 2013.

	2013	2012
Operating Revenue	\$ 690,771	\$ 695,783
Operating Expenses	673,216	655,014
Net Operating Income	17,555	40,769
Non-Operating Revenue, Net	41,347	63,575
Change in Net Position	\$ 58,902	\$ 104,344

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

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2013, the District had \$1,118,571, net of accumulated depreciation, invested in a broad range of capital assets, including land, rights of way, plant and distribution system, and furniture and equipment. (See table below.) This amount represents a net decrease (including additions and deductions) of \$3,830, or 0.3%, under last year. This decrease was due to depreciation and deductions in excess of capital asset additions.

	2013	2012
Land	\$ 88,379	\$ 10,561
Plant and Equipment	2,424,613	2,411,618
Construction in Progress	4,800	-
Less: Accumulated Depreciation	(1,399,221)	(1,299,778)
Total Capital Assets	\$ 1,118,571	\$ 1,122,401

Debt

The District had \$1,891,000 in bonds outstanding at December 31, 2013, compared to \$968,000 last year. A summary of this debt is shown in the table below:

	2013	2012
Revenue Bonds	\$ 191,000	\$ 223,000
Public Improvement Bonds	1,700,000	745,000
Total Debt	\$ 1,891,000	\$ 968,000

Contacting the District's Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact A. J. Cigali, General Manager, 19432 Hwy. 36, Suite A, Covington, Louisiana 70433.

BASIC FINANCIAL STATEMENTS

ST. TAMMANY PARISH WATER DISTRICT NO. 2
 COVINGTON, LOUISIANA
 Statements of Net Position
 December 31, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 383,206	\$ 534,854
Utility Customer Receivables	73,571	67,575
Accrued Interest Receivable	557	557
Accounts Receivable - Other	1,269	1,093
Inventory	20,471	22,450
Prepaid Expenses	1,268	966
	<hr/>	<hr/>
Total Current Assets	480,342	627,495
Restricted Assets		
Cash and Cash Equivalents		
Board-Designated for Replacement of Capital Assets	193,486	-
Restricted Cash	1,286,926	312,434
	<hr/>	<hr/>
Total Restricted Assets	1,480,412	312,434
Capital Assets		
Plant and Equipment at Cost, Net	1,025,392	1,111,840
Construction in Progress	4,800	-
Land	88,379	10,561
	<hr/>	<hr/>
Total Capital Assets	1,118,571	1,122,401
Other Assets		
Bond Issuance Cost, Net	-	16,612
Utility Deposits	200	200
	<hr/>	<hr/>
Total Other Assets	200	16,812
	<hr/>	<hr/>
Total Assets	3,079,525	2,079,142

The accompanying notes are an integral part of these financial statements.

ST. TAMMANY PARISH WATER DISTRICT NO. 2
 COVINGTON, LOUISIANA
 Statements of Net Position (Continued)
 December 31, 2013 and 2012

	2013	2012
Liabilities		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	6,598	-
Accrued Expenses	1,917	1,229
Compensated Absences	14,738	13,516
Total Current Liabilities (Payable from Unrestricted Assets)	23,253	14,745
Current Liabilities (Payable from Restricted Assets)		
Accrued Interest on Bonds	20,352	15,432
Meter Deposits	84,609	79,556
Current Maturities of Bonds Payable	104,000	62,000
Total Current Liabilities (Payable from Restricted Assets)	208,961	156,988
Long-Term Debt, Net of Current Maturities		
Revenue Bonds Payable	157,000	191,000
Public Improvement Bonds Payable	1,630,000	715,000
Total Long-Term Debt	1,787,000	906,000
Total Liabilities	2,019,214	1,077,733
Net Position		
Net Investment in Capital Assets	222,651	216,402
Restricted	186,886	155,446
Unrestricted	650,774	629,561
Total Net Position	\$ 1,060,311	\$ 1,001,409

The accompanying notes are an integral part of these financial statements.

ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Statements of Revenues and Expenses
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenue		
Water Revenue	\$ 616,414	\$ 634,574
Tap and Connect Fees	70,370	56,984
Other Revenue	3,987	4,225
Total Operating Revenue	690,771	695,783
Operating Expenses		
Salaries	246,495	240,312
Depreciation	101,738	97,974
Employee Benefits	73,858	69,167
Insurance	36,363	31,146
Utilities and Telephone	33,966	30,170
Repairs and Maintenance	30,063	48,722
Legal and Professional	29,887	23,168
Operating Supplies	27,857	18,257
Payroll Taxes	19,896	19,177
Rent	15,989	12,542
Truck Expenses	15,923	17,642
Other	10,648	10,071
Director Fees	10,080	9,270
Postage and Office Supplies	8,110	16,149
Parish Assessment Expense	6,451	6,480
System Upgrades	3,767	2,552
Uniforms	1,314	1,274
Travel, Conferences, and Conventions	811	941
Total Operating Expenses	673,216	655,014
Net Operating Income	17,555	40,769
Non-Operating Revenue (Expense)		
Ad Valorem Revenue	114,819	108,922
Impact Fees	11,600	2,400
Interest Income	2,862	1,077
Bond Issuance Expenses	(13,023)	-
Interest Expense	(74,911)	(48,824)
Total Non-Operating Revenue, Net	41,347	63,575
Change in Net Position	\$ 58,902	\$ 104,344

The accompanying notes are an integral part of these financial statements.

ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Statements of Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
Net Position, Beginning of Year	\$ 1,001,409	\$ 897,065
Change in Net Position	58,902	104,344
Net Position, End of Year	<u>\$ 1,060,311</u>	<u>\$ 1,001,409</u>

The accompanying notes are an integral part of these financial statements.

ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Receipts from Customers	\$ 684,599	\$ 695,986
Payments to Suppliers	(296,812)	(291,417)
Payments to Employees and Payroll Taxing Agencies	(264,481)	(257,791)
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	123,306	146,778
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Cash Flows from Non-Capital Financing Activities		
Net Receipts from Meter Deposits	5,053	2,290
	<hr/>	<hr/>
Net Cash Provided by Non-Capital Financing Activities	5,053	2,290
	<hr/>	<hr/>
Cash Flows from Capital Financing Activities		
Principal Paid on Bonds	(62,000)	(60,000)
Proceeds from Issuance of Bonds	985,000	-
Bond Issuance Expenses Paid	(13,023)	-
Interest Paid on Bonds	(53,379)	(49,416)
Proceeds from Ad Valorem Taxes	114,819	108,922
Proceeds from Impact Fees	11,600	2,400
Purchase of Capital Assets	(93,108)	(65,979)
Increase in Construction in Progress	(4,800)	-
	<hr/>	<hr/>
Net Cash Provided by (Used in) Capital Financing Activities	885,109	(64,073)
	<hr/>	<hr/>
Cash Flows from Investing Activities		
Interest Received on Investments	2,862	1,077
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Net Cash Provided by Investing Activities	2,862	1,077
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Net Increase in Cash and Cash Equivalents	1,016,330	86,072
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Cash and Cash Equivalents, Beginning of Year	847,288	761,216
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Cash and Cash Equivalents, End of Year	\$ 1,863,618	\$ 847,288
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The accompanying notes are an integral part of these financial statements.

ST. TAMMANY PARISH WATER DISTRICT NO. 2
COVINGTON, LOUISIANA
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of Net Operating Income to		
Net Cash Provided by Operating Activities		
Net Operating Income	\$ 17,555	\$ 40,769
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	101,738	97,974
Increase in Utility Customers Receivable	(5,996)	(2,140)
(Increase) Decrease in Accounts Receivable - Other	(176)	2,343
Decrease in Inventory	1,979	6,955
(Increase) Decrease in Prepaid Expenses	(302)	2,675
Increase (Decrease) in Accounts Payable	6,598	(3,496)
Increase (Decrease) in Accrued Expenses	688	(2,415)
Increase in Compensated Absences	1,222	4,113
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Net Cash Provided by Operating Activities	\$ 123,306	\$ 146,778
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The accompanying notes are an integral part of these financial statements.

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

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

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Codification Section 2100, the District is considered a component unit of St. Tammany Parish (the Parish) reporting entity because (1) commissioners of the District are appointed by the Parish and (2) the District provides water service to residents within the Parish. While the District is an integral part of the Parish reporting entity and should be included within the 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 the District and do not present information on the Parish, the general government services provided by the Council, or on other component units that comprise the St. Tammany Parish reporting entity.

Fund Accounting

The accounts of the District are organized on the basis of proprietary fund accounting used by governmental entities. The proprietary 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.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The proprietary fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB No. 63, net position is classified into three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- a. *Net Investment in Capital Assets* - This component of net position consists of the historical cost of capital assets, including any restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, plus deferred outflows of resources, less deferred inflows of resources, related to those assets.
- b. *Restricted* - This component of net position consists of assets that have constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- c. *Unrestricted* - All other net position is reported in this category.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Impact of Recently Issued and Adopted Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of the statement are effective for periods beginning after December 15, 2012. In accordance with the adoption of GASB 65, the District has recognized as an expense in the period incurred all debt issuance costs, except any portion related to prepaid insurance costs.

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 defines cash and cash equivalents to include cash on hand, demand deposits, and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Utility Customer Receivables

Utility customer receivables on the accompanying statements of net position are considered to be fully collectible at December 31, 2013 and 2012. 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.

Capital Assets

All capital assets of the proprietary fund are recorded at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. Pre-construction costs associated with the development of the water system, which include engineering, legal, and interest costs, are capitalized and will be amortized over their estimated useful lives using the straight-line method. The District maintains a threshold level of \$2,500 or more for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. The following estimated useful lives and methods are used to compute depreciation:

Building	10 - 15 Years	Straight-Line
Plant and Distribution System	40 Years	Straight-Line
Furniture, Fixtures, and Equipment	5 - 12 Years	Straight-Line
Software	5 - 10 Years	Straight-Line
Transportation Equipment	5 Years	Straight-Line

Depreciation and amortization expenses amounted to \$101,738 and \$97,974, for the years ended December 31, 2013 and 2012, respectively.

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Inventory

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

Compensated Absences

Employees of the District earn annual vacation leave based on the following:

Length of Service	Annual Earned
6 Months through 1 Year	5 Days
2 Years through 5 Years	10 Days
6 Years through 20 Years	15 Days
20 Years or more	20 Days

Upon termination of service, employees are paid for unused accrued annual vacation leave. Vacation time is not accumulated from year to year. Unused vacation time is paid on the final paycheck of the year.

Sick leave is earned at the rate of 6 days per year. Before October 2009, employees were allowed to accumulate sick leave up to 60 days. The current policy is that sick leave can only be accumulated up to 12 days; however, any unpaid sick leave accumulated prior to October 2009 can continue to be carried forward.

In accordance with the above, the District has accrued the following for sick leave that has been earned but not taken as of December 31st:

	2013	2012
Sick Leave	<u>\$ 14,738</u>	<u>\$ 13,516</u>

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, and political subdivisions.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Notes to Financial Statements

Note 2. Cash and Cash Equivalents

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District does not have a deposit policy for custodial credit risk. Under state law, deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities, plus the federal deposit insurance, must at all times equal the amount on deposit with the fiscal agent. The custodial bank must advertise and sell the pledged securities within 10 days of being notified that the fiscal agent has failed to pay deposited funds upon demand.

At December 31, 2013, the District had \$666,647 in non-interest bearing deposits. These deposits are secured from risk by \$250,000 of federal deposit insurance and \$416,647 of pledged securities held in the name of the fiscal agent bank by a custodial bank that is mutually acceptable to both parties. At December 31, 2013, the District had \$1,203,297 in interest-bearing deposits. These deposits are secured from risk by \$250,000 of federal deposit insurance and \$953,297 of pledged securities held in the name of the fiscal agent bank by a custodial bank that is mutually acceptable to both parties.

At December 31, 2013 and 2012, cash and cash equivalents for both current and restricted assets consisted of the following:

	2013	2012
Unrestricted	\$ 383,206	\$ 534,854
Restricted	1,480,412	312,434
Cash on Hand and in Bank	\$ 1,863,618	\$ 847,288

Note 3. Restricted Assets

Resolutions authorizing the issuance of a Waterworks Revenue Bond dated January 7, 1999, for \$500,000, provided for certain restrictions of assets of the District. These requirements have been met as of December 31, 2013 and 2012.

Restricted cash and investments follow:

	2013	2012
Revenue Bonds	\$ 92,128	\$ 86,687
Public Improvement Bonds	219,110	146,191
Proceeds of Public Improvement Bonds	891,079	-
Meter Deposits	84,609	79,556
Reserve for Asset Replacement	193,486	-
Total Restricted Assets	\$ 1,480,412	\$ 312,434

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

Notes to Financial Statements

Note 4. Ad Valorem Taxes

The District is authorized to levy a special ad valorem tax of 6.00 mills on all property subject to taxation to cover debt service requirements. The proceeds of this ad valorem tax are for the purpose of paying the principal and interest of the outstanding public improvement bonds. The following is a roll-forward of ad valorem funds for the year ended December 31, 2013:

Beginning Cash and Investments	\$ 174,283
Plus: Ad Valorem Receipts	114,819
Subtotal	<u>289,102</u>
Less: Interest Payments on Bonds	(39,992)
Principal Payments on Bonds	<u>(30,000)</u>
Ending Cash and Investments	<u>\$ 219,110</u>

Ad valorem taxes attach as an enforceable lien on property as of January 1st of each year. Taxes were levied by the District on December 1, 2013. Billed taxes were delinquent on January 1, 2014. Revenues from ad valorem taxes are budgeted for the year received, due to the Board of Commissioners' intentions. The St. Tammany Parish Tax Collector bills and collects the District's ad valorem taxes using the assessed value determined by the Tax Assessor of St. Tammany Parish, Louisiana.

Note 5. Long-Term Debt

The following is a summary of bond transactions of the District for the years ended December 31, 2013 and 2012:

	2013	2012
Revenue Bonds:		
Bonds Payable at January 1 st	\$ 223,000	\$ 253,000
Bonds Issued	-	-
Bonds Retired	<u>(32,000)</u>	<u>(30,000)</u>
Bonds Payable at December 31st	<u>\$ 191,000</u>	<u>\$ 223,000</u>
Public Improvement Bonds:		
Bonds Payable at January 1 st	\$ 745,000	\$ 775,000
Bonds Issued	985,000	-
Bonds Retired	<u>(30,000)</u>	<u>(30,000)</u>
Bonds Payable at December 31st	<u>\$ 1,700,000</u>	<u>\$ 745,000</u>

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

Notes to Financial Statements

Note 5. Long-Term Debt (Continued)

The following is a description of the bonds of the District for the years ended December 31, 2013 and 2012:

	2013	2012
Revenue Bonds:		
\$500,000 Water Revenue Bonds dated January 7, 1999; due in annual principal installments of \$11,000 - \$43,000, plus semi-annual interest payments through September 1, 2018, with interest at 4.10% to 5.90%, collateralized by water revenues.	<u>\$ 191,000</u>	<u>\$ 223,000</u>
Public Improvement Bonds:		
\$815,000 General Obligation Bonds dated March 1, 2009; due in annual principal installments of \$5,000 - \$65,000, plus semi-annual interest payments through March 1, 2028, with interest at 4.0% to 7.0%, collateralized by ad valorem taxes.	<u>\$ 715,000</u>	<u>\$ 745,000</u>
\$985,000 General Obligation Bonds dated April 9, 2013; due in annual principal installments of \$35,000 - \$70,000, plus semi-annual interest payments through March 1, 2033, with interest at 1.0% to 2.75%, collateralized by ad valorem taxes.	<u>985,000</u>	<u>-</u>
Total Public Improvement Bonds	<u>\$ 1,700,000</u>	<u>\$ 745,000</u>

The annual requirements to amortize all bonds outstanding as of December 31, 2013, including interest payments, are as follows:

Year Ending December 31 st	Revenue Bonds			Public Improvement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 34,000	\$ 10,909	\$ 44,909	\$ 70,000	\$ 49,074	\$ 119,074
2015	36,000	9,039	45,039	70,000	46,953	116,953
2016	38,000	7,023	45,023	70,000	45,028	115,028
2017	40,000	4,857	44,857	75,000	43,178	118,178
2018	43,000	2,537	45,537	80,000	41,153	121,153
2019 to 2023	-	-	-	445,000	170,218	615,218
2024 to 2028	-	-	-	570,000	90,316	660,316
2029 to 2033	-	-	-	320,000	21,113	341,113
Total	<u>\$ 191,000</u>	<u>\$ 34,365</u>	<u>\$ 225,365</u>	<u>\$ 1,700,000</u>	<u>\$ 507,033</u>	<u>\$ 2,207,033</u>

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

Notes to Financial Statements

Note 6. Capital Assets

Capital asset activities for the year ended December 31, 2013, were as follows:

December 31, 2013	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 10,561	\$ 77,818	\$ -	\$ 88,379
Construction in Progress	-	4,800	-	4,800
Total Capital Assets Not Being Depreciated	10,561	82,618	-	93,179
Capital Assets Being Depreciated				
Building	20,060	-	-	20,060
Building Improvements	39,432	-	-	39,432
Machinery and Equipment	1,695,843	-	-	1,695,843
Water Meters	547,923	-	-	547,923
Office Equipment	8,633	2,799	(2,295)	9,137
Transportation Equipment	69,397	4,241	-	73,638
Software	30,330	-	-	30,330
Leasehold Improvements	-	8,250	-	8,250
Total Capital Assets Being Depreciated	2,411,618	15,290	(2,295)	2,424,613
Less Accumulated Depreciation for:				
Building	(20,060)	-	-	(20,060)
Building Improvements	(1,972)	(3,943)	-	(5,915)
Machinery and Equipment	(1,009,435)	(44,279)	-	(1,053,714)
Water Meters	(190,487)	(44,663)	-	(235,150)
Office Equipment	(4,389)	(758)	2,295	(2,852)
Transportation Equipment	(64,336)	(1,892)	-	(66,228)
Software	(9,099)	(5,791)	-	(14,890)
Leasehold Improvements	-	(412)	-	(412)
Total Accumulated Depreciation	(1,299,778)	(101,738)	2,295	(1,399,221)
Total Capital Assets Being Depreciated, Net	1,111,840	(86,448)	-	1,025,392
Total Capital Assets, Net	\$ 1,122,401	\$ (3,830)	\$ -	\$ 1,118,571

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

Notes to Financial Statements

Note 6. Capital Assets (Continued)

Capital asset activities for the year ended December 31, 2012, were as follows:

December 31, 2012	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 10,561	\$ -	\$ -	\$ 10,561
Capital Assets Being Depreciated				
Building	20,060	-	-	20,060
Building Improvements	-	39,432	-	39,432
Machinery and Equipment	1,695,843	-	-	1,695,843
Water Meters	547,923	-	-	547,923
Office Equipment	4,789	4,467	(623)	8,633
Transportation Equipment	69,397	-	-	69,397
Software	8,480	22,080	(230)	30,330
Total Capital Assets Being Depreciated	2,346,492	65,979	(853)	2,411,618
Less Accumulated Depreciation for:				
Building	(20,060)	-	-	(20,060)
Building Improvements	-	(1,972)	-	(1,972)
Machinery and Equipment	(965,158)	(44,277)	-	(1,009,435)
Water Meters	(145,824)	(44,663)	-	(190,487)
Office Equipment	(4,789)	(223)	623	(4,389)
Transportation Equipment	(61,355)	(2,981)	-	(64,336)
Software	(5,471)	(3,858)	230	(9,099)
Total Accumulated Depreciation	(1,202,657)	(97,974)	853	(1,299,778)
Total Capital Assets Being Depreciated, Net	1,143,835	(31,995)	-	1,111,840
Total Capital Assets, Net	\$ 1,154,396	\$ (31,995)	\$ -	\$ 1,122,401

Note 7. Net Position

Net position for the years ended December 31, 2013 and 2012, consisted of the following:

	2013	2012
Net Investment in Capital Assets	\$ 222,651	\$ 216,402
Restricted:		
Restricted for Revenue Bonds	54,492	50,474
Restricted for Public Improvement Bonds	132,394	104,971
Restricted for Water System Extensions and Improvements, Net of Unspent Portion of Long-Term Debt	-	1
Unrestricted	650,774	629,561
Total	\$ 1,060,311	\$ 1,001,409

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

Notes to Financial Statements

Note 8. Commitments

The District entered into a ten-year lease for office space commencing on January 1, 2002, with monthly payments of \$966. The District renewed this lease for a five-year term commencing on December 31, 2012, with monthly payments of \$1,268. Rental expense totaled \$14,909 and \$11,894, for the years ended December 31, 2013 and 2012, respectively. The following are the scheduled future minimum rental payments under the new lease:

2014	\$ 15,210
2015	15,210
2016	15,210
2017	<u>15,210</u>
Total	<u>\$ 60,840</u>

Note 9. Water Rates

The District charged the following water rates to each of its customers based on volume for each of the years ended December 31, 2013 and 2012:

Residential	
<hr/>	
First 2,000 gallons	\$ 15.00
Over 2,000 gallons	\$ 2.80 per 1,000 gallons
Commercial	
<hr/>	
First 2,000 gallons	\$ 25.00
Over 2,000 gallons	\$ 3.10 per 1,000 gallons

As of December 31, 2013, the District served 1,798 customers.

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

Notes to Financial Statements

Note 10. Board Members' Per Diem Payments

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

	2013	2012
Pierre Fabre, Vice-President 73460 Military Road Covington, LA 70435	\$ 1,500	\$ 1,260
Wayne Jacobs, Secretary-Treasurer 20120 Highway 36 Covington, LA 70433	4,980	5,010
Kathy Nastasi, President #4 Pipe Loop Covington, LA 70435	1,080	1,140
Glynn Huhn, Commissioner 73482 Military Road Covington, LA 70435	-	720
Michael Stubbs, Commissioner 20470 Alexandria Street Covington, LA 70435	1,440	1,140
Monique Stubbs, Commissioner 73191 Artesian Drive Covington, LA 70435	1,080	-
Total	\$ 10,080	\$ 9,270

Note 11. Subsequent Events

Subsequent to year end, the District has disposed of two trucks and purchased two new trucks as replacements. The combined cost of these vehicles is \$51,499.



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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of St. Tammany Parish Water District No. 2 (the District), a component unit of St. Tammany Parish, Louisiana, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated April 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Covington, LA
April 23, 2014