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THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

Financial Statements

December 31, 1997 and 1996

With Independent Auditors' Report Thereon

Release Date 7/15/98

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 JUL 08 1998

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY

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KPMG Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

Independent Auditors' Report

The Board of Directors
The Louisiana Municipal Natural Gas
Purchasing and Distribution Authority
Baton Rouge, Louisiana:

We have audited the accompanying balance sheets of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority as of December 31, 1997 and 1996, and the related statements of revenues, expenses and changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and with *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority as of December 31, 1997 and 1996, and the results of its operations and its 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 May 18, 1998, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

KPMG Peat Marwick LLP

May 18, 1998

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY

Balance Sheets

December 31, 1997 and 1996

Assets	1997	1996
Current assets:		
Cash	$ 203,552	186,134
Accounts receivable	3,375,034	3,447,361
Total current assets	3,578,586	3,633,495
Furniture and equipment	114,125	114,125
Less accumulated depreciation	(109,972)	(92,910)
	4,153	21,215
Total assets	$ 3,582,739	3,654,710
Liabilities and Members' Equity		
Liabilities - accounts payable and other liabilities	3,523,498	3,564,658
Members' equity	59,241	90,052
	$ 3,582,739	3,654,710

See accompanying notes to financial statements.

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY

Statements of Revenues, Expenses and Changes in Members' Equity

Years ended December 31, 1997 and 1996

	1997	1996
Operating revenues:		
Membership dues	$ 370,701	341,226
Gas sales	16,493,667	16,135,965
Legal fees billed	21,026	48,360
Late charges	21,975	-
Total revenues	16,907,369	16,525,551
Operating expenses:		
Cost of gas	16,493,667	16,135,965
Management fee (note 1(e))	105,915	97,558
Purchase agent fee	264,786	243,896
Depreciation	17,062	16,953
Legal fees paid	64,749	51,774
Bad debt (recovery)	-	(29,800)
Total expenses	16,946,179	16,516,346
Operating income (loss)	(38,810)	9,205
Nonoperating revenues and (expenses):		
Interest income	10,558	7,958
Other expenses	(2,559)	1,927
	7,999	9,885
Net income (loss)	(30,811)	19,090
Members' equity, beginning of year	90,052	70,962
Members' equity, end of year	$ 59,241	90,052

See accompanying notes to financial statements.

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY

Statements of Cash Flows

Years ended December 31, 1997 and 1996

	1997	1996
Cash flows from operating activities:		
Operating income (loss)	$ (38,810)	9,205
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	17,062	16,953
(Increase) decrease in accounts receivable	72,327	(1,102,164)
Increase (decrease) in accounts payable	(41,160)	1,197,977
Net cash provided by operating activities	9,419	121,971
Cash flows from investing activities:		
Other income (expense)	(2,559)	1,927
Interest income received	10,558	7,958
Net cash provided by investing activities	7,999	9,885
Net increase in cash	17,418	131,856
Cash, beginning of year	186,134	54,278
Cash, end of year	$ 203,552	186,134

See accompanying notes to financial statements.

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY

Notes to Financial Statements

December 31, 1997 and 1996

(1) Summary of Significant Accounting Policies

The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) is a quasi-public corporation and an instrumentality of the state of Louisiana, created on November 23, 1987 pursuant to La. R.S. 33:4546.1 et seq. for the purpose of purchasing and distributing natural gas to participating municipalities and political subdivisions.

(a) Basis of Accounting and Measurement Focus

All funds of the Authority are maintained on the accrual basis of accounting.

Proprietary Fund Type

As a proprietary fund, the Authority's operations are accounted for using a flow of economic resource measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The operating statements present increases (revenues) and decreases (expenses) in net total assets. The Authority maintains one proprietary fund type - the enterprise fund. 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 that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance. The Authority applies all applicable FASB pronouncement issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.

(b) Allowance for Uncollectible Accounts

Management of the Authority is of the opinion that all of its accounts receivable are collectible; therefore, an allowance for uncollectible accounts has not been provided.

(c) Depreciable Assets

Depreciable assets are recorded at cost and depreciated over their estimated useful lives ranging from 5-7 years using the straight-line method.

(d) Purchase Agent Fee

Effective May 1, 1993, the Authority contracted a gas management firm to act as the exclusive agent to purchase natural gas for the Authority. The contract is for a five (5) year period with the option to renew for an additional five (5) year period.

(Continued)

(e) Management Fee

The Authority contracted the Louisiana Municipal Association (LMA) to manage the affairs of the Authority. Under this agreement, LMA will provide the Authority an Executive Director and other personnel necessary to carry out the functions of the Authority and its membership. The Authority's Board of Directors and Executive Committee will continue to administer and establish policies for the management of the Authority.

The agreement is effective May 1, 1993 and shall be for a five (5) year period with the option to renew for an additional five (5) year period.

(f) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

(g) Revenues

The Authority purchases natural gas for its members and bills them for the cost of the gas plus a fee per unit of natural gas purchased. This fee comprises the Authority's membership dues. Accordingly, receivables from the members and payables to the vendors are generated when gas is delivered into the respective pipelines.

The membership dues collected from members is allocated in its entirety to pay the aforementioned Purchase Agent and Management fees.

(h) Cash Flows

For the purposes of the statements of cash flows, the Authority considers all amounts in demand deposit and money market accounts to be cash.

(2) Employee Benefit Plans

Effective January 1, 1991, the Authority entered into a defined contribution agreement with its employees. The Authority had agreed to match contributions to the IRS Section 457 Salary Deferral Savings Plan up to 6.2% of employees' gross salaries. The Section 457 plan assets remains the property of the employer until paid, subject only to claims of the Authority's general creditors. The Authority's fiduciary

(Continued)

responsibility includes overseeing the use of the plan assets which is recorded on the balance sheet together with a corresponding liability to plan participants.

Effective May 1, 1993, the plan was frozen when the Authority entered into a contract with LMA to manage its affairs, resulting in the elimination of the Authority's employees. The remaining contributions not previously withdrawn by the former employees of the Authority will be maintained by a trustee until all vested amounts are withdrawn from the plan. As of December 31, 1996, all amounts had been withdrawn from the plan.

(3) Deposits

At December 31, 1997 and 1996, the carrying amount of the Authority's deposit accounts at various financial institutions was $203,552 and $186,134, respectively. The bank balance was $204,512 and $213,850, respectively, of which the first $100,000 was insured by Federal Depository Insurance and the remaining balance was covered by collateral pledged in the name of the Authority.

(4) Contingencies

The Authority, as well as its purchasing agent and others, has been named in lawsuits filed by a former natural gas broker alleging a breach of contract and other allegations. While it is not feasible to predict or determine the outcome of these legal proceedings, the Authority plans on defending its position vigorously and believes the outcome will not have a material effect on its financial position. The suits allege actual damages against all defendants to be approximately $2,900,000 and alleges punitive damages of $20 million. It is management's understanding that any judgment against the Authority cannot be executed unless the Authority makes a specific appropriation of funds for the purpose of paying such judgment.

Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

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

Officers and Trustees
Louisiana Municipal Natural Gas Purchasing
and Distribution Authority:

We have audited the financial statements of Louisiana Municipal Natural Gas Purchasing and Distribution Authority as of and for the year ended December 31, 1997, and have issued our report thereon dated May 18, 1998, which included an explanatory paragraph concerning the adoption of Governmental Accounting Standards Board's Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. We conducted our audit in accordance with generally accepted auditing standards and the 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 the Authority'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 the Authority'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 the 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 Louisiana Municipal Natural Gas Purchasing and Distribution Authority, the Louisiana Legislative Auditor's Office and the Commissioner of Insurance, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

May 18, 1998

KPMG Peat Marwick LLP
Suite 3500 One Shell Square
New Orleans, LA 70139-3599

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May 18, 1998

The Members of the Board
The Louisiana Municipal Natural Gas Purchasing and Distribution Authority:

We have audited the financial statements of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority as of and for the year ended December 31, 1997, and have issued a report thereon dated May 18, 1998. Under generally accepted auditing standards, we are providing you with the attached information related to the conduct of our audit.

This information is intended solely for the use of the Members of the Board and management and should not be used for any other purpose.

Very truly yours,

KPMG Peat Marwick LLP

LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

DECEMBER 31, 1997

Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards is to express an opinion on the financial statements of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) as of and for the year ended December 31, 1997 based on our audit. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Furthermore, our audit, including the limited inquiries we made in connection with the Year 2000 issue, was not designed to, and does not, provide any assurance that a Year 2000 issue which may exist will be identified, on the adequacy of the Authority's plans related to Year 2000 financial or operational issues, or on whether the Authority is or will become Year 2000 compliant. Year 2000 compliance is the responsibility of management.

Significant Accounting Policies

The significant accounting policies used by the Authority are described in the "*Summary of Significant Accounting Policies*" note to the financial statements.

We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance of the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. We are aware of no significant areas involving management judgment.

Significant Audit Adjustments

We have made no significant adjustments to the financial statements except as related to accrual adjustments.

Disagreements With Management

There were no disagreements with management on financial accounting and reporting matters which, if not satisfactorily resolved, would have caused a modification of our report on the Authority's 1997 financial statements.

Consultation With Other Accountants

To the best of our knowledge, management has not consulted with or obtained an opinion, written or oral, from other independent accountants during the past year which were subject to the requirements of Statement on Auditing Standards No. 50, "*Reporting on the Application of Accounting Principles*."

Major Issues Discussed With Management Prior to Retention

There have been no major issues discussed with management prior to our retention as your auditors.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.