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REPORT

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH POLICE JURY
Franklinton, Louisiana**

**Component Unit Financial Statements
and Auditor's Reports
As of and for the Years Ended
December 31, 1999 and 1998
with Supplemental Information Schedules**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 26 2000

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH COUNCIL
Franklinton, Louisiana

Component Unit Financial Statements
As of and for the Year Ended December 31, 1999
With Supplemental Information Schedule

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Durden and Alongo

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William R. Durden

Donna W. Alongo

Washington Parish Council
Board of Commissioners
Washington Parish Gas
Utility District No. 2
Franklinton, Louisiana

Commissioners:

We have audited the accompanying financial statements of the Washington Parish Gas Utility District No. 2, (a component unit of the Washington Parish Council) as of and for the years ended December 31, 1999 and 1998, as listed in the table of contents. These financial statements are the responsibility of the District's Board of Commissioners. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the Washington Parish Gas Utility District No. 2 (a component unit of the Washington Parish Council) as of December 31, 1999 and 1998, and the results of its operations and it's cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated June 20, 2000 on our consideration of the Washington Parish Gas Utility District No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts and grants.

Durden and Alonzo

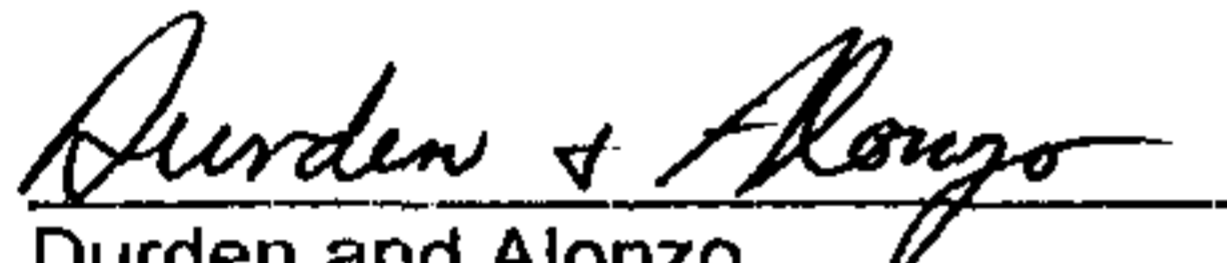
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Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Washington Parish Gas Utility District No. 2. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and it is also not a required part of the financial statements of the Washington Parish Gas Utility District No. 2. The information has been subjected to the auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.


Durden and Alonzo
Certified Public Accountants

June 20, 2000

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

Washington Parish Council
Board of Commissioners
Washington Parish Gas
Utility District No. 2
Franklinton, Louisiana

We have audited the financial statements of the Washington Parish Gas Utility District No. 2 (a component unit of the Washington Parish Council) of and for the years ended December 31, 1999 and December 31, 1998, and have issued our report thereon dated June 20, 2000. 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 District'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 District'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

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detected within a timely period by employees in the normal course of performing their assigned functions. We noted certain matters involving the internal control over financial reporting, that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the component unit financial statements.

- Finding:** No segregation of duties, same person handles all phases of cash receipts.
- Cause:** Limited office staff. All cash receipts and accounts receivable billing and control are handled by the clerk in the Franklinton office. She takes payments and prepares all bank deposits, and monthly billings for accounts receivable.
- Recommendation:** Due to the limited available work, a complete segregation of duties is impractical. The CPA office reconciles the bank balance each month, and on a random basis counts cash and reconciles the subsidiary accounts receivable balances with the general ledger balance.
- Finding:** Lack of control over meter and supplies purchases.
- Cause:** Purchase orders are not used for most purchases. The office clerk, both maintenance men, and the manager purchase supplies (meters and line supplies). No one verifies the receipt of the items and they are housed in a very insecure shed. As items are purchased (by maintenance men) or used from the inventory, no reference is made to a work order.
- Recommendation:** Require all items be purchased through issuance of purchase orders signed by the system manager or a specified board member. On purchase orders for supplies purchased in the field, a work order should be referenced. Items taken from supply inventory should also reference a work order.

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This report is intended for the information of the Board of Commissioners of the Washington Parish Gas Utility District No. 2, the Washington Parish Council, and the State of Louisiana Legislative Auditor. However, this report is a matter of public record, and its distribution is not limited.

Durden & Alonzo

Durden and Alonzo
Certified Public Accountants

June 20, 2000

Durden and Alongo

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Washington Parish Council
Board of Commissioners
Washington Parish Gas
Utility District No. 2
Franklinton, Louisiana

Compliance

We have audited the compliance of the Washington Parish Gas Utility District No. 2 (a component unit of the Washington Parish Council), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 1999. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board of Commissioners of the Washington Parish Gas Utility District No. 2. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Washington Parish Gas Utility District No. 2, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1999.

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Internal Control Over Compliance

The Board of Commissioners, of Washington Parish Gas Utility District No. 2, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Commissioners, Washington Parish Council, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Durden and Alonzo
Certified Public Accountants

Franklinton, Louisiana

January 20, 2000

FINANCIAL STATEMENTS

STATEMENT A

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH POLICE JURY
Franklinton, Louisiana
BALANCE SHEET
As at December 31,

<u>ASSETS</u>	<u>1999</u>	<u>1998</u>
Current assets:		
Cash	\$ 31,322	\$ 1,908
Accounts receivable-net of allowance for bad debts	69,549	43,170
Unbilled revenue	20,178	24,336
Inventory	31,317	7,348
Accrued interest receivable	-	165
Prepaid insurance	7,982	-
Total current assets	<u>160,348</u>	<u>76,927</u>
Restricted assets:		
Revenue Bonds Reserve Fund	2,400	130,000
Revenue Bonds Sinking Fund	10,703	9,350
Customer's meter deposit fund	36,120	33,303
Line extension customer deposits	-	5,500
Bond proceeds deposits-line extension	45,258	-
Total restricted assets	<u>94,481</u>	<u>178,153</u>
Property and equipment:		
Gas line system	1,131,623	1,131,623
Gas meters	12,440	12,440
Equipment	30,511	6,983
Construction in progress-line extension	260,380	-
Total property and equipment	<u>1,434,954</u>	<u>1,151,046</u>
Less accumulated depreciation	<u>(716,886)</u>	<u>(685,612)</u>
Net property and equipment	<u>718,068</u>	<u>465,434</u>
Other assets:		
Deferred bond issuance cost	14,264	-
Total other assets	<u>14,264</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 987,161</u>	<u>\$ 720,514</u>

See accompanying notes to the financial statements

STATEMENT A

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH POLICE JURY
Franklinton, Louisiana

BALANCE SHEET
As at December 31,

	1999	1998
<u>LIABILITIES AND FUND EQUITY:</u>		
Current Liabilities:		
Accounts payable	\$ 113,404	\$ 196,895
Accrued expenses	2,939	1,257
Note payable Resource Bank-current	3,461	
Total current liabilities	119,804	198,152
Current Liabilities: (Payable from Restricted Assets)		
Revenue bonds payable-current	-	100,000
Construction payable-line extension	90,760	-
Accrued interest -Rural Development bond	10,703	12,472
Customers' meter deposits	36,120	33,303
Customer construction deposits	-	5,500
Total current liabilities (Restricted Assets)	137,583	151,275
Long-term liabilities:		
Revenue bonds payable	-	400,000
Less current portion	-	(100,000)
Note payable-Resource Bank	8,510	
Less current portion	(3,461)	
Rural Development bond payable	599,326	
Total long-term liabilities	604,375	300,000
Total liabilities	861,762	649,427
Fund Equity:		
Retained earnings:		
Unreserved	71,087	50,563
Net income	54,312	20,524
Total Fund Equity	125,399	71,087
TOTAL LIABILITIES AND FUND EQUITY	\$ 987,161	\$ 720,514

See accompanying notes to the financial statements

STATEMENT B

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH POLICE JURY
Franklinton, Louisiana

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS
For the Years Ended December 31,

	<u>1999</u>	<u>1998</u>
Operating revenues:		
Gas sales	\$ 385,709	\$ 399,247
Forfeited discounts	8,948	10,949
Overread meters and adjustments	(1,927)	(11,225)
Miscellaneous income	7,585	4,575
Total operating revenues	<u>400,315</u>	<u>403,546</u>
Operating expenses:		
Cost of gas sold	150,393	197,401
Gas realignment costs	-	5,437
Billing services	43,459	74,828
Line relocation	2,718	-
Bad debt provision	4,977	6,792
General and administrative (schedule 1)	90,942	43,851
Depreciation	31,274	30,325
Total operating expenses	<u>323,763</u>	<u>358,634</u>
Operating income (loss)	76,552	44,912
Non-operating revenue:		
Interest income	6,182	9,336
Other charges:		
Revenue bond interest expense & premium	<u>(28,422)</u>	<u>(33,724)</u>
Net Income (Loss)	54,312	20,524
Retained earnings (deficit)		
Beginning of year	<u>71,087</u>	<u>50,563</u>
Retained earnings (deficit)		
End of year	<u>\$ 125,399</u>	<u>\$ 71,087</u>

See accompanying notes to the financial statements

STATEMENT C

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH POLICE JURY
Franklinton, Louisiana

STATEMENT OF CASH FLOWS
For Year Ended December 31,

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Operating Income	\$ 76,552	\$ 44,912
Depreciation	31,274	30,325
(Increase) decrease in accounts receivable	(22,221)	23,922
(Increase) decrease in inventory	(23,969)	(4,510)
(Increase) decrease in other assets	(7,818)	3,010
Increase (decrease) in accounts payable	7,269	4,068
Increase (decrease) in accrued liabilities	1,682	(1,289)
Increase (decrease) in interest payable	(1,769)	(2,650)
Net cash provided (used) by operating activities	<u>61,000</u>	<u>97,788</u>
Cash flows from capital and related financing activities:		
Funds borrowed	609,326	-
Increase in deferred bond cost	(14,264)	-
(Increase) decrease in restricted assets	86,489	8316
Principal payments on debt	(401,490)	(85,000)
Interest payments on debt	(33,182)	(36,375)
Interest earnings-sinking & reserve funds	1,781	11,059
Payments for capital acquisitions	(280,457)	-
Net cash provided (used) by financing activities	<u>(31,797)</u>	<u>(102,000)</u>
Cash flows from investing activities:		
Interest receipts other than from restricted	<u>211</u>	<u>927</u>
Net cash provided (used) from investing activities	<u>211</u>	<u>927</u>
Net increase (decrease) in cash and equivalents	29,414	(3,285)
Cash and cash equivalents, beginning of year	<u>1,908</u>	<u>5193</u>
Cash and cash equivalents, end of year	<u>\$ 31,322</u>	<u>\$ 1,908</u>

See accompanying notes to the financial statements

STATEMENT D

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH POLICE JURY
Franklinton, Louisiana

STATEMENT OF REVENUES & EXPENSES-BUDGET TO ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 1999

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Gas sales, forfeited discounts, overread meters and adjustments	\$ 407,000	\$ 392,730	(14,270)
Miscellaneous income	2,500	7,585	5,085
Interest income	6,500	6,182	(318)
Total operating revenues	<u>416,000</u>	<u>406,497</u>	<u>(9,503)</u>
Operating deductions:			
Cost of gas sold	180,000	150,393	29,607
Bond interest	32,000	28,422	3,578
Billing services	43,500	43,459	41
Provision for bad debts	7,000	4,977	2,023
Repairs	4,500	6,987	(2,487)
Line supplies	7,000	11,385	(4,385)
Clerical & meter reading	7,300	4,731	2,569
Insurance	11,000	10,896	104
Taxes	2,025	2,028	(3)
Legal and accounting	24,500	13,038	11,462
Board fees	5,550	5,260	290
Warehouse rent	600	600	-
Office supplies	3,000	3,597	(597)
Depreciation	32,825	31,274	1,551
Salaries	20,000	19,600	400
Bond issuance cost	400	366	34
Agent fees	1,900	1,726	174
Telephone	2,000	2,199	(199)
Meter replacement	2,700	2,566	134
One call concepts	750	746	4
Truck expense	-	2,129	(2,129)
Payroll taxes	-	1,462	(1,462)
Line relocation	-	2,718	(2,718)
Miscellaneous	3,975	1,626	2,349
Total operating deductions	<u>392,525</u>	<u>352,185</u>	<u>40,340</u>
Net income	<u>\$ 23,475</u>	<u>\$ 54,312</u>	<u>\$ 30,837</u>

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH COUNCIL
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
December 31, 1999

INTRODUCTION

The Washington Parish Gas Utility District No. 2, was created by the Washington Parish Police Jury on July 7, 1972, under provisions authorized by LRS 33:430. The purpose of the district was to build and maintain a natural gas distribution system for the rural area in the western part of Washington Parish. The system serves approximately 1,000 customers over distribution lines of 165 miles. The system is operated and maintained on a contractual basis by System Operators, Inc. of Baton Rouge, Louisiana; therefore, the District has no employees.

The accounting and reporting policies of the district are the responsibility of a five-member board (compensated-Schedule 2) appointed by the Washington Parish Council. These accounting and reporting policies conform to generally accepted accounting principles as applicable to enterprise funds of a government entity. Such accounting and reporting procedures also conform to the guides set forth in the Louisiana Municipal Audit and Accounting Guide and to the industry audit guide, Audits of State and Local Governmental Units. The actions of the board also conform to the various provisions of the bond indenture as adopted in a resolution dated August 4, 1972.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying component unit financial statements of the Washington Parish Gas Utility District No. 2 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles..

B. REPORTING ENTITY

As the governing authority of the parish, for reporting purposes, the Washington Parish Council is the financial reporting entity for Washington Parish.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH COUNCIL
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
December 31, 1999

The financial reporting entity consists of (a) the primary government, parish council, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the Washington Parish Council for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
 - a. The ability of the parish council to impose its will on that organization and/or
 - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the police jury.
2. Organizations for which the parish council does not appoint a voting majority but are fiscally dependent on the police jury.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Because the parish council appoints the governing board and has the ability to significantly influence operations, the district was determined to be a component unit of the Washington Parish Council, the financial reporting entity.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH COUNCIL
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
December 31, 1999

The accompanying financial statements present information only on the funds maintained by the district and do not present information on the parish council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

C. FUND ACCOUNTING

The Washington Parish Gas Utility District No. 2 is organized and operated on a fund basis of accounting whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprises its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that cost (expenses, including depreciation) of providing service on a continuing basis be financed or recovered primarily through user charges.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise 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 Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The District uses the following practices in recording certain revenue and expenses:

Revenues

All revenues are susceptible to accrual basis of accounting. Gas revenues are billed on a recurring monthly basis, as gas is used by the District's customers. Bills are rendered at the beginning of each month for gas used the previous month. Accounts are primarily collected in the month following use of the gas. Re-connect fees, and installation fees are recorded in the month the service is rendered and collected the following month. Interest income is paid and recorded on a monthly basis, with the exception of some interest on U S treasury notes paid on a quarterly basis. Interest is accrued as earned on those treasury notes.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH COUNCIL
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
December 31, 1999

Expenses

The district records expenses as they are incurred. Gas purchases are billed monthly and paid the following month. Supplies purchased during the month are normally paid the next month.

E. BUDGET

The proposed budget for 1999 was presented at the October 1998 meeting and adopted at the November 1998 board meeting. The budget is prepared on the accrual basis of accounting. The board forwarded a copy of the approved budget to the Washington Parish Council. The board reviews the budget actual comparison on a monthly basis as a part of their management of the system. The 1999 budget was amended at the February 2000 board meeting. The 2000 budget was presented at the December 1999 meeting and approved at the February 2000 meeting.

F. CASH AND CASH EQUIVALENTS

Cash includes unrestricted amounts in demand deposits, interest bearing demand deposits, and money market accounts. The district includes in cash and cash equivalents, amounts in time deposits and those investments in bank certificates of deposits with original maturity of no more than 90 days.

Under state law, the district may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana. These are classified as investments if their original maturity exceed 90 days. Investments are stated at their fair market value.

G. INVENTORIES

The District purchases their estimated monthly gas allotment based on historical analysis. By agreement with Southern Natural Gas Co., the District is allowed to store any surplus gas in the Southern Natural Gas Co. facilities. Inventories of gas are valued at lower of cost or market and are expensed using the first-in first-out method.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH COUNCIL
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
December 31, 1999

H. RESTRICTED ASSETS

Bond Sinking and Reserve Fund

The Revenue Bond Reserve Fund and Sinking Fund were established in order to retire the \$1,300,000 par value gas utility revenue bonds issued August 1, 1972. These bonds were paid off August 1, 1999, with funds from a new bond debt financed by the USDA Rural Development. The \$433,000 was transferred from the sinking fund to the paying agent account on August 1, 1999. The Bond Sinking and Reserve Funds, and the paying agent account are all maintained at Bank One in New Orleans, Louisiana. On September 8, 1999, \$47.64 from the Sinking Fund, and \$131,561.31 from the Reserve Fund were transferred to the District's operating account, and the two accounts were closed. After a period of seven years any unclaimed payments in the paying agent account will be remitted to the State of Louisiana.

USDA Rural Development requires that reserve and contingency funds be established. Commencing with the month following the completion of and acceptance of the gas improvements financed with the proceeds of this bond issue: (1) A sum of \$253 per month must be deposited into a Reserve Fund until \$60,672.32 has been accumulated therein. (2) A sum of \$375 per month must be deposited into a Contingency Fund, with payments to continue until debt is paid off. In addition to the two funds previously listed Rural Development also required a sinking fund be established to make the first payment due June 23, 2000 (interest only).

Customer Meter Deposits

Money received for utility deposits paid by new customers is held at Hancock Bank, Franklinton, Louisiana. Meter deposits are held by the district, until a customer becomes inactive. The meter deposit is then applied to the accounts receivable balance due and any remainder is refunded to the customer. Current meter deposits are: large commercial \$150, small retail \$125, and homeowner \$100.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH COUNCIL
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
December 31, 1999

J. FIXED ASSETS

Fixed assets of the district are included on the balance sheet of the enterprise fund at historical cost. Interest costs incurred during construction were capitalized. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Gas system	40 years
Gas meters	20 years
Office equipment	10 years
Other equipment	5 years

K. LONG-TERM LIABILITIES

Long-term liabilities are recognized on the balance sheet of the enterprise fund. For the district this is represented by the balance of bonds payable after one year.

2. CASH AND CASH EQUIVALENTS

At December 31, 1999, the district has unrestricted cash and cash equivalents (book balances) totaling \$31,222 in demand deposits.

These deposits are stated at cost, which approximates market. 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 market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are to be held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At December 31, 1999, the District has \$56,030 in deposits (collected bank balances). These deposits are secured from risk by \$100,000 of federal deposit insurance.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH COUNCIL
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
December 31, 1999

3. RESTRICTED ASSETS

At December 31, 1999, the District had restricted funds (collected bank balances) as follows:

	<u>Collected Bank Balances</u>	<u>Book Value</u>
Meter Deposit Funds:		
Demand deposits	\$ 14,315	\$12,230
Interest-bearing demand deposits	16,890	16,890
Time deposits	7,000	7,000
 Sinking and Reserve Fund:		
Interest-bearing demand deposits	\$ 13,103	\$ 13,103
 Bond (USDA) proceeds:		
Demand deposits	\$ 51,734	\$ 45,258

During 1999 there were no deposits (excluding U. S. Government investments) which exceeded the \$100,000 of federal deposit insurance.

4. ACCOUNTS RECEIVABLE

Accounts receivable consists of customer account balances at December 31, 1999 - \$78,204, less the allowance for bad debts of \$8,655.

5. BAD DEBTS

Uncollectible amounts due from customers' receivables are recognized as bad debts at the time information becomes available which would indicate the uncollectibility of the particular receivable. The bad debts are charged off against an allowance account established as an average of the last 3 years charge offs, or the average percentage of charge offs to sales, whichever is greater. Calculation of the allowance account and subsequent provision for bad debts follows:

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FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
December 31, 1999

<u>Percentage to sales</u>	<u>Charge-offs</u>
Current sales \$396,552.	1997 \$4,680.
Average charge-off <u> x 1.255%</u>	1998 6,433.
	1999 <u>2,839.</u>
	13,952.
<u>\$ 4,977.</u>	<u>-:- 3</u>
	<u>\$ 4,651.</u>
<hr/>	
Allowance account balance 1/01/99	\$ 6,517.
Less current year charge-off	(2,839.)
Current year provision	<u>4,977.</u>
Allowance account balance 12/31/99	<u>\$ 8,655.</u>

6. FIXED ASSETS

All fixed assets are stated at historical cost. Following is a summary of the activity in the fixed asset accounts for 1999:

	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Gas system	\$ 1,131,623	\$ -	\$ -	\$ 1,131,623
Line Extension		260,381		\$ 260,381
Gas meters	12,440	-	-	12,440
Office equipment	4,087	3,395	-	7,482
Other equipment	2,896	20,132	-	23,028
Totals	<u>\$ 1,151,046</u>	<u>\$ 283,908</u>	<u>\$ -</u>	<u>\$ 1,434,954</u>

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
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NOTES TO FINANCIAL STATEMENTS
December 31, 1999

A summary of the accounts and the related accumulated depreciation follows:

	Cost	Accumulated Depreciation	Net
Gas system	\$ 1,131,623	\$ 701,911	\$ 429,712
Line extension	260,381	-	\$ 260,381
Gas meters	12,440	8,666	3,774
Office equipment	7,482	3,395	4,087
Other equipment	23,028	2,914	20,114
Totals	\$ 1,434,954	\$ 716,886	\$ 718,068

Depreciation is computed on a straight line basis for financial statement purposes.

7. USDA RURAL DEVELOPMENT BONDS

The current balance of \$599,326 represents the partial draw on the bonded debt of \$758,000. The new debt, consist of one bond payable to USDA Rural Development issued June 23, 1999. The bond is payable over a 20-year period with interest at the rate of 4.75%. Funds from this bonded debt are to be used for a line extension and meter replacement on the current system (\$381,874), and to pay off the old bond debt (\$376,126) The first payment, which will be for interest only, is due June 23, 2000. The amount of the first payment will depend upon the dates and amounts of the draw-down on the loan. Interest accrued by Rural Development as of December 31, 1999 was \$10,703.

8. REVENUE BONDS PAYABLE

The 1998 balance of \$400,000 of par value Gas Utility Revenue Bonds dated August 1, 1972 were paid off August 1, 1999 along with \$30,000 of interest and \$3,000 of premium.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
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FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
December 31, 1999

9. LITIGATION AND CLAIMS

As of December 31, 1999, the District has been named as defendant in two lawsuits:

In the first case the district is a co-defendant with the Washington Parish Council, System Operators, Inc., and their respective insurance companies. At this time the outcome of these legal proceedings is unknown. Because the District, in the past, has been unable to obtain liability insurance, any adverse decision could have a material impact on the financial position of the District. At best the District will be responsible for any legal fees or expenses incurred to defend this lawsuit. Cost incurred to date amount to \$2,861.

The second case appears not to have merit, alleging various health problems allegedly due to inhaling gas fumes. However the District did not have liability insurance at this time and could incur some legal expenses in this case also.

10. COMPENSATED ABSENCES

At the July 22, 1999 board meeting the District hired two employees effective August 1, 1999. At this same meeting the board established the following benefits policy:

Employees will receive 10 days of vacation and 6 days of sick leave. The benefits were granted immediately and there is no carryover at year-end (calendar).

Because there are provisions for a carryover of leave benefits, there is no provision for compensated absences.

11. LEASES

The District does not have any items under a capital or operating lease at December 31, 1999.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH COUNCIL
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
December 31, 1999

12. ON-BEHALF PAYMENTS

Certain operating expenditures of the District are paid by the Washington Parish Council. The District's office is located in a building leased by the Council. The Council pays the rent and utilities on the building (office space approximately 80 square feet). These expenditures are not reflected in the accompanying financial statements.

13. SUBSEQUENT EVENTS

In May of 1998 the board voted to pursue the re-financing of their bonded debt and to obtain additional financing for extensions and repairs of their existing lines (see note No. 7). As stated in note 7 the District has drawn funds on this debt through December 31, 1999 in the amount of \$599,326. From January 1, 2000 through the date of this report, the District has drawn an additional \$99,000. Completion of the construction and meter replacement project is estimated (by Pan American Engineers) to be July 25, 2000.

SUPPLEMENTAL INFORMATION

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH POLICE JURY
Franklinton, Louisiana

GENERAL AND ADMINISTRATIVE EXPENSES

For the Years Ended December 31,

	<u>1999</u>	<u>1998</u>
Salaries	19,600	\$ -
Payroll taxes	1,462	-
Clerical expense & meter reading	4,731	5,934
Accounting services	2,425	1,600
Severance taxes	2,028	2,228
Audit and legal expense	10,613	5,327
Board of Commissioners compensation	5,260	5,121
Paying agent fees	1,726	1,410
Insurance	10,896	-
Warehouse rent	600	600
Supplies and expense-office	3,597	988
Supplies and expense-gas line	11,385	6,508
Repairs and maintenance	6,987	2,325
Meter replacement	2,566	2,024
Telephone	2,199	1,388
Truck expense	2,129	
One-call concept	746	701
Leak survey	-	4,200
Advertising	-	1,224
Amortization of bond issuance cost	366	
Miscellaneous	<u>1,626</u>	<u>2,273</u>
Total	<u>\$ 90,942</u>	<u>\$ 43,851</u>

Schedule 2

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH POLICE JURY
FRANKLINTON, LOUISIANA

BOARD OF COMMISSIONERS COMPENSATION

For the Year Ended December 31, 1998

The Board of Commissioners of the district, consist of five members appointed by the Washington Parish Police Jury. The following schedule of compensation paid to board members is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Compensation did not exceed provisions of R.S. 33:4305.B.[1].

	Meetings	Fees	Travel	Totals
Will Smith Jr.	12	\$ 900	\$ 292	\$ 1,192
Louis A. Jones	12	900	60	960
Ralph Riley	12	900	466	1,366
J. M. Thomas	2	150	19	169
Joe H. Davis	12	900	67	967
B B McKenzie	7	525	81	606
Totals		<u>\$4,275</u>	<u>\$985</u>	<u>\$ 5,260</u>

The Commissioners are appointed to the following terms on January 1, 1999

Ralph Rile	1 year
B. B. McKenzie	2 years
Joe Davis	3 years
Louis A. Jones	4 years
Will Smith, Jr.	5 years

Re-appointments are made each January for the member whose term expires.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
OF THE
WASHINGTON PARISH GOVERNMENT
FRANKLINTON, LOUISIANA

STATEMENT OF CHANGES IN ASSETS
RESTRICTED FOR REVENUE BOND DEBT SERVICE

For the Year Ended December 31, 1999

	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Balance, January 1, 1999	\$ 9,350	\$ 130,000	\$ 139,350
Cash receipts:			
Transfers from operating account	44,500	-	44,500
Interest earnings	1,014	4,220	5,234
Transfers from reserve fund	2,174	(2,174)	-
Transfer from USDA Rural Development	376,126		376,126
Total funds available	<u>433,164</u>	<u>132,046</u>	<u>565,210</u>
Cash disbursements:			
Principal payments	400,000	-	400,000
Interest payments	33,000	-	33,000
Trust department fees	116	485	601
Transfers to operations	48	131,561	131,609
Total disbursements	<u>433,164</u>	<u>132,046</u>	<u>565,210</u>
Balance, December 31, 1999	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**WASHINGTON PARISH GAS UTILITY DISTRICT NO 2
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FISCAL YEAR ENDED DECEMBER 31, 1999**

<u>Ref. No.</u>	<u>Fiscal Year Finding Initially Occurred</u>	<u>Description of Finding</u>	<u>Corrective Action Taken</u>	<u>Planned Corrective Action/Partial Corrective Action Taken</u>
Section I - Internal Control Report				
98-1	12/31/74	Lack of separation of duties of the A/R billing and collections	unresolved	Management will continue to require additional checks and balances by the CPA, and other functions as explained in the prior-year report on audit findings
98-2	12/31/97	Lack of control over meter and material purchases	partial	Receipt of supplies is now being verified, and purchase orders were used on some purchases. However; work orders were not referenced.
Section II - Compliance Report				
98-1	12/31/98	Sinking fund deposit requirements not met.	resolved	New financing received in 1999 and old debt paid off Sinking fund was closed. Provision made for sinking fund on new debt. Reserve and contingency funds not required to be set up until construction project is complete (anticipated to be July 25, 2000).
Section III - Management Letter				
98-1	12/31/74	Unable to obtain proper insurance.	resolved	Liability insurance, and bonds on the clerk and board members handling money was obtained effective June 1, 1999.
98-2	12/31/95	No contract for operation of system, with System Operator	resolved	Operation of the system was taken over by the board on August 1, 1999.

WASHINGTON PARISH GAS UTILITY DISTRICT NO 2
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 1999

<u>Ref. No.</u>	<u>Fiscal Year Finding Initially Occurred</u>	<u>Description of Finding</u>	<u>Corrective Action Taken</u>	<u>Planned Corrective Action/Partial Corrective Action Taken</u>
98-3	12/31/95	Excessive accounts receivable charge offs	partial	Collection of accounts receivable was much better in 1999. However; the cut-off time period is still too long.
98-4	12/31/95	Excessive gas losses	partial	Construction project under way to extend gas lines and replace old meters. Gas losses were reduced to some extent in 1999, but replacement of meters was only partially complete at December 31, 1999.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2

215 11TH AVENUE
FRANKLINTON, LOUISIANA 70438

MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR CURRENT YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 1999

<u>Ref. No.</u>	<u>Description of Findings</u>	<u>Corrective Action Planned</u>	<u>Name of Contact Person</u>	<u>Anticipated Completion Date</u>
Section 1 - Compliance and Internal Control Report:				
99-1	No segregation of duties for cash receipts and billing	This will continue to be an unresolved matter of control due to the limited funds available to hire necessary employees to separate the duties entailed in billing and receiving of payments on accounts receivable	Ralph Riley	immediately
99-2	Lack of control over purchases of line and repair supplies.	Office clerk and maintenance man are to get together and formulate a plan to setup use of purchase orders and work orders. Clerk will issue purchase orders as supplies are ordered. Maintenance man will check receipt of items and sign shipping papers to verify receipt. Inventory of supplies will be taken at end of each month, and as items are removed a work order will be completed. CPA will check supply inventory on a random basis	Jeane Jones	August 1, 2000

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 1999

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Disbursements/ Expenditures</u>
<u>U. S. Department of Agriculture</u> Passed through Rural Development Services Water and Waste Disposal Systems for Rural Communities Loan - \$758,000. (award)	10.418	N/A	\$ 599,326