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THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY
BATON ROUGE, LOUISIANA

FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

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Release Date 9-4-96

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THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY
BATON ROUGE, LOUISIANA

FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

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Postlethwaite & Netterville

A Professional Accounting Corporation

CERTIFIED PUBLIC ACCOUNTANTS

8550 UNITED PLAZA BLVD., SUITE 1001 • BATON ROUGE, LOUISIANA 70809 • TELEPHONE (504) 922-4600 • FAX (504) 922-4611

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, 1995 and 1994, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 1995 and 1994, 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 8, 1996 on our consideration of the Authority's internal control structure and a report dated May 8, 1996 on its compliance with laws and regulations.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 8, 1996

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THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY
BATON ROUGE, LOUISIANA

BALANCE SHEETS
DECEMBER 31, 1995 AND 1994

ASSETS

	1995	1994
CURRENT ASSETS		
Cash	$ 54,278	$ 84,682
Accounts receivable (net of allowance of $29,800 for 1995)	2,345,197	2,112,181
Prepaid expenses and deposits	-	34,392
Total current assets	2,399,475	2,231,255
DEPRECIABLE ASSETS		
Property and equipment	114,125	114,125
Less accumulated depreciation	(75,957)	(58,895)
	38,168	55,230
OTHER ASSETS	5,992	5,992
Total assets	$ 2,443,635	$ 2,292,477

LIABILITIES AND MEMBERS' EQUITY

	1995	1994
CURRENT LIABILITIES		
Note payable	$ -	$ 40,000
Current portion - capital lease obligation	-	2,865
Accounts payable	2,366,681	2,127,174
Total current liabilities	2,366,681	2,170,039
OTHER LIABILITIES	5,992	5,992
Total liabilities	2,372,673	2,176,031
Members' Equity	70,962	116,446
Total liabilities and members' equity	$ 2,443,635	$ 2,292,477

The accompanying notes are an integral part of these statements.

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY
BATON ROUGE, LOUISIANA

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

	1995	1994
OPERATING REVENUES		
Membership dues	$ 378,107	$ 399,719
Gas sales	11,546,410	15,296,665
Legal fees billed	296,760	34,768
Total revenues	12,221,277	15,696,384
OPERATING EXPENSES		
Cost of gas	11,546,410	15,296,665
Management fee	111,548	124,748
Purchase agent fee	266,405	274,771
Depreciation	17,062	17,154
Legal fees paid	296,760	78,990
Bad debt	29,800	-
Total expenses	12,267,985	15,757,560
DEFICIT OF OPERATING REVENUES OVER EXPENSES	(46,708)	(61,176)
NON-OPERATING REVENUES AND (EXPENSES)		
Other income (net)	2,230	27,172
Interest income	988	60
Interest expense	(1,994)	(3,269)
Litigation settlement fees billed	137,500	-
Litigation settlement fees paid	(137,500)	-
	1,224	23,963
DEFICIT OF REVENUES OVER EXPENSES	(45,484)	(37,213)
Beginning Members' Equity	116,446	153,659
Ending Members' Equity	$ 70,962	$ 116,446

The accompanying notes are an integral part of these statements.

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY
BATON ROUGE, LOUISIANA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficit of operating revenues over expenses	($ 46,708)	($ 61,176)
Adjustments to reconcile deficit of operating revenue over expenses to net cash provided by (used in) operating activities:		
Depreciation	17,062	17,154
Bad debt	29,800	-
Changes in:		
Prepaid expenses	34,392	(34,392)
Accounts receivable	(262,816)	1,678,132
Accounts payable	239,507	(2,422,086)
Net cash provided by (used in) operating activities	11,237	(822,368)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
(Payments on) proceeds from note payable	(40,000)	40,000
Net cash (used in) provided by non-capital financing activities	(40,000)	40,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid under capital lease obligations and other	(1,994)	(3,269)
Principal payments under capital lease obligations	(2,865)	(3,139)
Net cash used in capital and related financing activities	(4,859)	(6,408)
CASH FLOWS FROM INVESTING ACTIVITIES		
Other income	2,230	27,172
Interest income received	988	60
Net cash provided by investing activities	3,218	27,232
Net decrease in cash	(30,404)	(761,544)
Cash, beginning of period	84,682	846,226
Cash, end of period	$ 54,278	$ 84,682

The accompanying notes are an integral part of these statements.

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

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

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

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.

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.

1. Summary of Significant Accounting Policies (continued)

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. Notes Payable

During the year ended December 31, 1994, upon approval of the State Bond Commission, the Authority borrowed $40,000 to fund the purchase of prepaid gas for participating municipalities. The note was due and paid March 31, 1995. The note was unsecured.

3. 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 remain the property of the employer until paid, subject only to claims of the Authority's general creditors. The Authority's fiduciary responsibility includes overseeing the use of the plan assets which are 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.

4. Deposits

At December 31, 1995, the carrying amount of the Authority's deposit accounts at various financial institutions was $54,278. The bank balance was $85,411, all of which was insured by Federal Depository Insurance.

5. 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.

The board of directors and members of the Authority passed a resolution allocating the cost of defending this lawsuit between its members based on pro-rata trends of gas purchased by each member. Prior to this resolution, the Authority incurred approximately $44,000 in legal fees during the year ended December 31, 1994 for the defense of this lawsuit.

6. Significant Member

During the year ended December 31, 1995 and 1994, the Authority had fees from Alexandria which were 6% and 23% of the total authority fees generated from all members, respectively. Subsequent to December 31, 1994, Alexandria resigned from the Authority.

SPECIAL REPORTS

OF

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Independent Auditors' Report on Internal Control Structure Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the financial statements of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) as of and for the year ended December 31, 1995, and have issued our report thereon dated May 8, 1996.

We conducted our audits 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 financial statements are free of material misstatement.

The management of the Authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Authority for the year ended December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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We noted certain matters involving the internal control structure and its operation that we considered to be 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 general purpose financial statements.

Finding:	The segregation of duties is inadequate to provide effective internal control.
Cause:	The condition is due to economic and space limitations.
Recommendation:	No action recommended.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described above is not believed to be a material weakness.

This report is intended for the information of the Authority's management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 8, 1996

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Independent Auditors' Report on Compliance with Laws and Regulations Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the financial statements of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) as of and for the year ended December 31, 1995, and have issued our report thereon dated May 8, 1996.

We conducted our audits 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 financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Authority is the responsibility of the organization's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the organization's compliance with certain provision of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. 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*.

This report is intended for the information of the Authority's management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 8, 1996