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THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

Financial Statements

December 31, 1998 and 1997

With Independent Auditors' Report Thereon

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 14 1999

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY

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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 (the Authority) as of December 31, 1998 and 1997, 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, 1998 and 1997, 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 June 11, 1999, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The year 2000 supplementary information on page 7 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Authority is or will become year 2000 compliant, that the Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Authority does business are or will become year 2000 compliant.

KPMG LLP

June 11, 1999

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

Balance Sheets

December 31, 1998 and 1997

Assets		1998	1997
Current assets:			
Cash	$	693,466	203,552
Accounts receivable		2,531,825	3,375,034
Total current assets		3,225,291	3,578,586
Furniture and equipment		114,125	114,125
Less accumulated depreciation		(114,125)	(109,972)
		-	4,153
Total assets	$	3,225,291	3,582,739
Liabilities and Members' Equity			
Liabilities -			
accounts payable and other liabilities	$	3,141,600	3,523,498
Members' equity		83,691	59,241
	$	3,225,291	3,582,739

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, 1998 and 1997

		1998	1997
Operating revenues:			
Membership dues	$	342,529	370,701
Gas sales		15,083,763	16,493,667
Legal fees billed		48,754	21,026
Late charges		19,588	21,975
Total revenues		15,494,634	16,907,369
Operating expenses:			
Cost of gas		15,083,762	16,493,667
Management fee (note 1(e))		105,494	105,915
Purchase agent fee (note 1(d))		244,664	264,786
Depreciation		4,153	17,062
Legal fees paid		47,749	64,749
Total expenses		15,485,822	16,946,179
Operating income (loss)		8,812	(38,810)
Nonoperating revenues and (expenses):			
Interest income		11,320	10,558
Other income		4,318	(2,559)
		15,638	7,999
Net income (loss)		24,450	(30,811)
Members' equity, beginning of year		59,241	90,052
Members' equity, end of year	$	83,691	59,241

See accompanying notes to financial statements.

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY

Statements of Cash Flows

Years ended December 31, 1998 and 1997

		1998	1997
Cash flows from operating activities:			
Operating income (loss)	$	8,812	(38,810)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation		4,153	17,062
Decrease in accounts receivable		843,209	72,327
Decrease in accounts payable		(381,898)	(41,160)
Net cash provided by operating activities		474,276	9,419
Cash flows from investing activities:			
Other income (expense)		4,318	(2,559)
Interest income received		11,320	10,558
Net cash provided by investing activities		15,638	7,999
Net increase in cash		489,914	17,418
Cash, beginning of year		203,552	186,134
Cash, end of year	$	693,466	203,552

See accompanying 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 and Measurement Focus*

As a proprietary fund, the Authority's operations are accounted for using a flow of economic resources, measurement focus and the accrual basis of accounting. Under this method of accounting, all assets and all liabilities associated with the operation of these funds are included on the balance sheets. 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 pronouncements 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, 1998, 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 ending April 30, 2003.

(e) *Management Fee*

The Authority contracted the Louisiana Municipal Association (LMA) to manage the affairs of the Authority. Under this agreement, LMA provides 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 administers and establishes policies for the management of the Authority.

The agreement is effective May 1, 1998 and shall be for a five (5) year period ending April 30, 2003.

(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) Deposits

At December 31, 1998 and 1997, the carrying amount of the Authority's deposit accounts at various financial institutions was $693,466 and $203,552, respectively. The bank balances were $502,113 and $204,512, 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.

(3) 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.

REQUIRED SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

Year 2000 Disclosures
(Unaudited)

The following is a synopsis of Louisiana Municipal Natural Gas Purchasing and Distribution Authority's (LMGA) actions to ensure that our agency is year 2000 compliant. The Louisiana Municipal Association (LMA) manages the operations of the LMGA. Pelican Gas Management is under contract as the exclusive agent to purchase natural gas for the Authority. These parties must be year 2000 compliant for the Authority to be compliant.

Awareness Stage

The Deputy Director of LMA began assessing the computer systems in 1998. Pelican Gas Management assessed their system in 1998.

Assessment Stage

The Deputy Director of LMA assessed the computer systems and determined which systems needed upgrading to be year 2000 compliant. $13,400 was budgeted in 1999 for computer equipment, and $4,000 was budgeted in 1999 for computer software replacement. Pelican Gas Management determined a need to replace their computer system.

Remediation Stage

All LMA computer hardware and software needing to become year 2000 compliant was purchased and installed in the first quarter of 1999. Written notification from an accounting software provider was obtained assuring compliance. Pelican Gas Management replaced their computer system in 1998. Pelican Gas Management has mailed letters to vendors to verify year 2000 compliance in early 1999.

Validation/Testing Stage

LMA has assurances from its vendors that its equipment and software are year 2000 compliant. Pelican Gas Management has received some vendor compliance letters and has forwarded these letters to the appropriate gas systems. Two seminars were conducted by the LMGA and attended by sixteen gas distribution systems. These seminars were designed to make the gas distribution systems aware of contingency planning, problem area identification, and remediation.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that LMGA is or will be year 2000 ready, that the Authority's remediation effort will be successful in whole or in part, or that parties with whom the Authority does business will be year 2000 ready.

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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*

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

We have audited the financial statements of Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) as of and for the year ended December 31, 1998, and have issued our report thereon dated June 11, 1999. 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 solely for the information and use of Louisiana Municipal Natural Gas Purchasing and Distribution Authority and the Louisiana Legislative Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 11, 1999

KPMG

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

June 11, 1999

The Members of the Finance Committee
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, 1998, and have issued a report thereon dated June 11, 1999. 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 Authority's Directors and management and should not be used for any other purpose.

Very truly yours,

KPMG LLP

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

December 31, 1998

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, 1998 based on our audit. In carrying out this responsibility, we assessed the risk that the financial statements may contain a material misstatement, either intentional or unintentional, and designed and conducted our audit to provide reasonable, not absolute, assurance of detecting misstatements that are material to the financial statements. In addition, we considered the internal control structure of the Authority to gain a basic understanding of the accounting system in order to design an effective and efficient audit approach, although not for the purpose of providing specific assurance on the internal control structure.

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 remediation 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 adjusted the cash basis financial statements of the Authority to the accrual basis in addition to recording significant audit adjustments related to regular year-end accruals.

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 1998 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.