9377

KPMG

The Global Leader

RECEIVED
JUN 25 1997
LEGISLATIVE AUDITOR

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

Financial Statements

December 31, 1996 and 1995

With Independent Auditors' Report Thereon

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY

Table of Contents

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, 1996, and the related statements of revenues, expenses and changes in members' equity, and cash flows for the year 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 audit. The financial statements as of and for the year ended December 31, 1995 were audited by other auditors whose report dated May 8, 1996 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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, 1996, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 16, 1997 on our consideration of the Authority's internal control structure and a report dated May 16, 1997 on its compliance with laws and regulations.

KPMG Peat Marwick LLP

May 16, 1997

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

Balance Sheets

December 31, 1996 and 1995

Assets	1996	1995
Current assets:		
Cash	$ 186,134	54,278
Accounts receivable (net of allowance of $29,800 for 1995)	3,447,361	2,345,197
Total current assets	3,633,495	2,399,475
Furniture and equipment	114,125	114,125
Less accumulated depreciation	(92,910)	(75,957)
	21,215	38,168
Other assets	-	5,992
Total assets	$ 3,654,710	2,443,635
Liabilities and Members' Equity		
Liabilities - accounts payable and other liabilities	3,564,658	2,372,673
Members' equity	90,052	70,962
	$ 3,654,710	2,443,635

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, 1996 and 1995

		1996	1995
Operating revenues:			
Membership dues	$	341,226	378,107
Gas sales		16,135,965	11,546,410
Legal fees billed		48,360	296,760
Total revenues		16,525,551	12,221,277
Operating expenses:			
Cost of gas		16,135,965	11,546,410
Management fee (note 1(e))		97,558	111,548
Purchase agent fee		243,896	266,405
Depreciation		16,953	17,062
Legal fees paid		51,774	296,760
Bad debt (recovery)		(29,800)	29,800
Total expenses		16,516,346	12,267,985
Excess (deficiency) of operating revenues over expenses		9,205	(46,708)
Nonoperating revenues and (expenses):			
Interest income		7,958	988
Interest expense		-	(1,994)
Other income		1,927	2,230
Litigation settlement fees billed		-	137,500
Litigation settlement fees paid		-	(137,500)
		9,885	1,224
Excess (deficit) of revenues over expenses		19,090	(45,484)
Members' equity, beginning of year		70,962	116,446
Members' equity, end of year	$	90,052	70,962

See accompanying notes to financial statements.

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY

Statements of Cash Flows

Years ended December 31, 1996 and 1995

		1996	1995
Cash flows from operating activities:			
Excess (deficiency) of operating revenues over expenses	$	9,205	(46,708)
Adjustments to reconcile deficit of operating revenue over expenses to net cash provided by operating activities:			
Depreciation		16,953	17,062
Bad debt expense			29,800
Decrease in prepaid expenses			34,392
Increase in accounts receivable		(1,102,164)	(262,816)
Increase in accounts payable		1,197,977	239,507
Net cash provided by operating activities		121,971	11,237
Cash flows from non-capital financing activities - payments on note payable		-	(40,000)
Cash flows from capital and related financing activities:			
Interest paid under capital lease obligations and other		-	(1,994)
Principal payments under capital lease obligations		-	(2,865)
Net cash used in capital and related refinancing activities		-	(4,859)
Cash flows from investing activities:			
Other income		1,927	2,230
Interest income received		7,958	988
Net cash provided by investing activities		9,885	3,218
Net increase (decrease) in cash		131,856	(30,404)
Cash, beginning of year		54,278	84,682
Cash, end of year	$	186,134	54,278

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

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.

(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 remain 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, 1996 and 1995, the carrying amount of the Authority's deposit accounts at various financial institutions was $186,134 and $54,278, respectively. The bank balance was $213,850 and $85,411, 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.

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.

(5) Significant Member

During the years 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, 1995, Alexandria resigned from the Authority.

KPMG Peat Marwick LLP

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

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 Louisiana Municipal Natural Gas Purchasing and Distribution Authority as of and for the year ended December 31, 1996, and have issued our report thereon dated May 16, 1997.

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 Louisiana Municipal Natural Gas Purchasing and Distribution 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 Louisiana Municipal Natural Gas Purchasing and Distribution Authority for the year ended December 31, 1996, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operations, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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 general purpose 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 structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of Louisiana Municipal Natural Gas Purchasing and Distribution Authority and the Office of the Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

May 16, 1997

KPMG Peat Marwick LLP

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

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 Distributing Authority (the Authority) as of and for the year ended December 31, 1996, and have issued our report thereon dated May 16, 1997.

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 financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Authority is the responsibility of Authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain provisions 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 herein 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.

KPMG Peat Marwick LLP

May 16, 1997

KPMG Peat Marwick LLP

Suite 3600 One Shell Square
New Orleans, LA 70139-3599

RECEIVED

JUN 25 1997

LEGISLATIVE AUDITOR

DO NOT SEND OUT
(Xerox necessary copies from this copy and PLACE BACK IN FILE)

May 16, 1997

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, 1996, and have issued a report thereon dated May 16, 1997. 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 Peat Marwick LLP

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

December 31, 1996

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, 1996 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.

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 1996 financial statements.

Consultation With Other Accountants

To the best of our knowledge, management has not consulted with or obtained any 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.