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REPORT

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

Component Unit Financial Statements
and Auditor's Reports
As of and for the Years Ended
December 31, 1997 and 1996
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 auditor, 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 Jan 14 2000

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

Component Unit Financial Statements
As of and for the Year Ended December 31, 1997
With Supplemental Information Schedules

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Washington Parish Police Jury
Board of Commissioners
Washington Parish Gas
Utility District No. 2
Franklin, Louisiana

Commissioners:

We have audited the accompanying financial statements as listed in the table of contents of the Washington Parish Gas Utility District No. 2, (a component unit of the Washington Parish Police Jury) as of December 31, 1997 and 1998, and for the years then ended. 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.

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 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.

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(continued)

In accordance with Government Auditing Standards, we have also issued a report dated June 22, 1998 on our consideration of Washington Parish Gas Utility District No. 2's internal control structure and a report dated June 22, 1998 on its compliance with laws and regulations.

In our opinion, the financial statements and supplemental information referred to in the above paragraphs present fairly, in all material respects, the financial position of the Washington Parish Gas Utility District No. 2 (a component unit of the Washington Parish Police Jury) as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Durden & Alongo

Durden and Alongo
Certified Public Accountants

June 12, 1998

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Washington Parish Police Jury
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 Police Jury) as of and for the years ended December 31, 1997 and December 31, 1996, and have issued our report thereon dated June 12, 1998.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These 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.

The Board of Commissioners of the District 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 component unit 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.

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(continued)

In planning and performing our audit of the financial statements of the Washington Parish Gas Utility (District No. 2) for the years ended December 31, 1967 and 1968, 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 our 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.

We noted certain matters involving the internal control structure and its operation that we consider 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 component unit financial statements.

- Finding:** No segregation of duties, same person handles all phases of cash receipts.
- Cause:** Limited office staff. All cash receipts are handled by the clerk in the Franklinton office. She takes payments and prepares all bank deposits.
- Recommendation:** Due to the limited available work a complete segregation of duties is impractical. The accounts receivable billing and posting of payments are segregated to an office in Baton Rouge and the CPA office reconciles the bank balance each month.

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William R. Borden

(continued)

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**Management's
Response:**

The office staff cannot be increased to satisfy the required segregation of duties. We have however established procedures to limit our exposure in this area. An outside firm reconciles the bank accounts and accounts receivable each month. A cash flow report is presented at each regular board meeting and we approve the expenditures only after looking at available cash in bank. We require daily bank deposits and the preparation of a daily cash report that references the pre-numbered cash receipts.

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 (papers 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:

Requires 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.

**Management's
Response:**

We are still in the process of attempting to borrow money through the U S D A-Office of Rural Development to purchase a storage building. This would give us a more secure place to house supplies. We will require purchase orders with a work order reference for all items acquired by maintenance men in the field.

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(continued)

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A material weakness is a reportable condition in which the design or operation of one or more of the 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 component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.

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, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the Washington Parish Gas Utility District No. 2, in a separate letter dated June 24, 1998.

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

Burden & Alongo

Burden and Alongo
Certified Public Accountants

June 22, 1998

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
LAWS AND REGULATIONS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Washington Parish Police Jury
Board of Commissioners
Washington Parish Gas
Utility District No. 2
Franklin, Louisiana

We have audited the financial statements of the Washington Parish Gas Utility District No. 2, a component unit of the Washington Parish Police Jury, as of and for the years ended December 31, 1997 and 1998, and have issued our report thereon dated June 12, 1999.

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.

Compliance with laws, regulations, bond indenture provisions, and grants applicable to the Washington Parish Gas Utility District No. 2 is the responsibility of the District's Board of Commissioners. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, and bond indenture provisions. However, the objective of our audit of the financial statements 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 disclose the following instance of non-compliance with bond indenture regulations: Annual deposits to bond sinking fund were not met. The bond indenture required deposits totaling \$117,000, to be made during the year ended December 31, 1997. However, deposits of only \$88,000 were made to the sinking fund.

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(continued)

We considered this instance of non-compliance in forming our opinion on whether the Washington Parish Gas Utility District No. 2's 1997 component unit financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles, and this report does not affect our report dated June 12, 1998, on those component unit financial statements.

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

Darden & Alonzo
Darden and Alonzo
Certified Public Accountants

June 22, 1998

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>1997</u>	<u>1996</u>
ASSETS		
Current assets:		
Cash	\$ 5,100	\$ 6,075
Accounts receivable	97,586	74,740
Loss allowance for bad debts	(5,154)	(5,272)
Inventory	2,636	15,604
Accrued interest receivable	3,175	3,883
Total current assets	<u>102,834</u>	<u>95,130</u>
Restricted assets:		
Revenue Bonds Reserve Fund	130,000	130,000
Revenue Bonds Sinking Fund	17,666	35,756
Customer's meter deposit fund	31,373	38,463
Total restricted assets	<u>179,039</u>	<u>197,219</u>
Property and equipment:		
Gas line system	1,131,603	1,156,669
Gas meters	12,440	12,440
Office equipment	4,067	4,067
Other equipment	3,696	3,696
Total property and equipment	<u>1,151,806</u>	<u>1,176,872</u>
Less accumulated depreciation	<u>(535,267)</u>	<u>(525,324)</u>
Net property and equipment	<u>616,539</u>	<u>651,548</u>
Total Assets	<u>\$ 777,402</u>	<u>\$ 793,107</u>

See accompanying notes to the financial statements

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

BALANCE SHEET
As at December 31,

<u>LIABILITIES AND FUND EQUITY:</u>	<u>1997</u>	<u>1996</u>
Current Liabilities:		
Accounts payable	\$ 192,007	\$ 172,795
Accrued expenses	2,548	2,174
Total current liabilities	<u>194,555</u>	<u>174,969</u>
Current Liabilities: (Payable from Restricted Assets)		
Revenue bonds payable - current portion	65,000	75,000
Accrued interest - revenue bonds	15,123	17,462
Customers' meter deposits	51,373	26,463
Total current liabilities (Restricted Assets)	<u>131,496</u>	<u>118,925</u>
Long-term liabilities:		
Revenue bonds payable	485,000	560,000
Less current portion	<u>(85,000)</u>	<u>(75,000)</u>
Total long-term liabilities	<u>400,000</u>	<u>485,000</u>
Total liabilities	726,051	780,895
Fund Equity:		
Retained earnings:		
Unreserved	12,252	(24,000)
Net income	<u>38,211</u>	<u>26,340</u>
Total Fund Equity	<u>50,463</u>	<u>12,340</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ 776,514	\$ 793,235

See accompanying notes to the financial statements

STATEMENT B

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

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

	<u>1997</u>	<u>1996</u>
Operating revenues:		
Gas sales	\$ 453,799	\$ 460,035
Forfeited discounts	11,393	12,602
Overhead meters and adjustments	(3,834)	(11,946)
Miscellaneous income	5,113	420
Total operating revenues	<u>465,471</u>	<u>\$ 460,111</u>
Operating expenses:		
Cost of gas sold	218,579	218,130
Gas realignment costs	5,040	9,794
Billing services	74,406	75,361
Line relocation	10,631	-
Bad debt provision	4,566	10,268
General and administrative (schedule 1)	49,690	58,121
Depreciation	29,295	28,863
Total operating expenses	<u>395,796</u>	<u>370,427</u>
Operating income (loss)	67,675	89,784
Non-operating revenue:		
Interest income	93,427	11,714
Grant revenues	-	2,569
Other charges:		
Revenue bond interest expense	<u>(38,723)</u>	<u>(45,007)</u>
Net income (loss)	122,379	58,960
Retained earnings (deficit):		
Beginning of year	<u>12,252</u>	<u>(42,892)</u>
Retained earnings (deficit):		
End of year	<u>\$ 122,379</u>	<u>\$ 12,252</u>

(See accompanying notes to the financial statements.)

STATEMENT C

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

STATEMENT OF CASH FLOWS
For Year Ended December 31,

	<u>1997</u>	<u>1996</u>
Cash flows from operating activities:		
Net income	\$ 28,215	\$ 52,044
Adjustments to reconcile net income provided by operating activities:		
Depreciation	39,293	36,663
(Increase) decrease in accounts receivable	(32,860)	15,684
(Increase) decrease in inventory	13,799	(16,604)
(Increase) decrease in other assets	508	74,732
Increase (decrease) in accounts payable	20,071	(75,509)
Increase (decrease) in accrued liabilities	372	(568)
Increase (decrease) in interest payable	(2,332)	(2,183)
Total adjustments	<u>28,215</u>	<u>22,927</u>
Net cash provided (used) by operating activities	<u>77,022</u>	<u>75,021</u>
Cash flows from investing activities:		
Cash payments for equipment purchases	(24,864)	(2,743)
Net cash provided (used) from investing activities	<u>(24,864)</u>	<u>(2,743)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(75,000)	(70,000)
Interest income added to sinking fund	(8,318)	(6,027)
Loss decrease in sinking fund	26,478	-
Net cash provided (used) by financing activities	<u>(56,840)</u>	<u>(76,027)</u>
Net increase (decrease) in cash and equivalents	(1,762)	(5,643)
Cash and cash equivalents, beginning of year	<u>5,875</u>	<u>128,33</u>
Cash and cash equivalents, end of year	<u>\$ 5,113</u>	<u>\$ 5,875</u>

See accompanying notes to the financial statements

STATEMENT D

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

Statement of Revenues and Expenses-Budget to Actual

For Year ended December 31, 1997

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Gas sales, forfeited discounts, returned meters and adjustments	\$403,789	\$496,598	\$ 92,809
Miscellaneous income	5,580	6,913	613
Interest income	13,000	10,407	(2,593)
Total operating revenues	<u>422,369</u>	<u>513,918</u>	<u>91,549</u>
Operating deductions:			
Cost of gas sold	209,754	225,010	(15,256)
Bond interest	40,000	38,791	209
Billing services	70,600	74,400	1,194
Provision for bad debts	7,000	4,500	2,500
Repairs	9,500	20,166	(10,666)
Line supplies	10,200	15,034	484
Gascol	6,600	5,852	748
Taxes	2,900	2,428	472
Legal and accounting	6,100	6,875	(775)
Board fees	4,000	4,950	(950)
Warehouse rent	600	600	-
Office supplies	1,200	915	285
Depreciation	29,300	29,799	7
Miscellaneous	4,031	3,889	142
Total operating deductions	<u>411,233</u>	<u>473,527</u>	<u>(62,294)</u>
Operating income	<u>\$ 11,136</u>	<u>\$ 40,391</u>	<u>\$ 29,255</u>
Debt Service Budget:			
Sinking fund interest	<u>\$ 117,000</u>	<u>\$ 98,000</u>	<u>\$ 19,000</u>

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1997

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 33:43D. 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 Police Jury. 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 Police Jury is the financial reporting entity for Washington Parish.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1997

The financial reporting entity consists of (a) the primary government, police jury, (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 Police Jury 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 police jury 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 police jury 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 police jury 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 Police Jury, the financial reporting entity.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1997

The accompanying financial statements present information only on the funds maintained by the district and do not present information on the police jury, 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, 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 these Treasury notes.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1997

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 1997 was presented at the November 1996 meeting and adopted at the December 1996 board meeting. The budget is prepared on the accrual basis of accounting, with provision made for bond debt service. The board forwarded a copy of the approved budget to the Washington Parish Police Jury. The board reviews the budget actual comparison on a monthly basis as a part of their management of the system. The 1998 budget was adopted at the December 1997 board 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 amortized cost.

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 POLICE JURY
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
December 31, 1997

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. The Bond Sinking Fund is an investment account used to accumulate funds for current principal and interest payments. The Bond Reserve Fund is an investment account where funds are accumulated and held in reserve for payment of bonds and interest when the necessary funds are not available in the Sinking Fund. The trustee for these accounts is First National Bank of Commerce, New Orleans, Louisiana. The trustee makes the necessary transfers for payment of maturing bonds and coupons to their paying agent account. After a period of seven years any unclaimed payments in the paying agent account are remitted to the State of Louisiana. The funds included as restricted assets are offset in restricted liabilities.

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, homeowner \$ 50.

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1997

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, 1997, the district has unrestricted cash and cash equivalents (book balances) totaling \$5,193 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, 1997, the District has \$12,303 in deposits (collected bank balances). These deposits are secured from risk by \$100,000 of federal deposit insurance.

3. RESTRICTED ASSETS

At December 31, 1997, the District had restricted funds (collected bank balances) as follows:

	Collected Bank Balances	Book Value
Meter Deposit Funds:		
Demand deposits	\$ 9,150	\$ 8,374
Interest-bearing demand deposits	95,148	16,148
Time deposits	7,000	7,000
	<u>Market Value</u>	<u>Book Value</u>
Sinking and Reserve Fund		
U S Government Securities	\$150,674	\$147,666

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1997

During 1997 there were no deposits (excluding U. S. Government investments) which exceeded the \$100,000 of federal deposit insurance.

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of customer account balances at December 31, 1997 - \$102,266 less accounts to be written off of \$4,680.

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:

<u>Percentage to sales</u>	<u>Charge-offs</u>
Current sales \$483,789.	1995 \$3,355.
Average charge-off <u>.1,20%</u>	1996 3,439.
<u>\$ 5,758.</u>	1997 4,880.
	<u>10,474.</u>
	<u> 3</u>
	<u>\$ 6,158.</u>
Allowance account balance 10/1/97	\$ 6,272.
Less current year charge-off	(4,880.)
Current year provision	<u>4,566.</u>
Allowance account balance 12/31/97	<u>\$ 6,158.</u>

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 1
OF THE
WASHINGTON PARISH POLICE JURY
FRANKLINTON, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
December 31, 1997

6. FIXED ASSETS

All fixed assets are stated at historical cost. Following is a summary of the activity in the fixed asset accounts for 1997:

	Balance	Additions	Deletions	Balance
Gas system	\$ 1,108,668	\$ 24,964	\$ -	\$ 1,133,632
Gas meters	12,448	-	-	12,448
Office equipment	4,087	-	-	4,087
Other equipment	2,888	-	-	2,888
Totals	\$ 1,128,091	\$ 24,964	\$ -	\$ 1,153,055

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

	Cost	Accumulated Depreciation	Net
Gas system	\$ 1,131,632	\$ 645,964	\$ 485,668
Gas meters	12,448	7,432	5,016
Office equipment	4,087	2,638	1,449
Other equipment	2,888	1,288	1,600
Totals	\$ 1,151,055	\$ 657,322	\$ 493,733

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1997

7. REVENUE BONDS PAYABLE

The current balance of \$485,000 of par value Gas Utility Revenue Bonds dated August 1, 1992 were issued on behalf of the District for the purpose of constructing a gas utility system with 1,400 service units. These bonds numbered 1 - 200 were issued in denominations of \$5,000. Interest (at the annual rate of 7-1/2%) is payable semi-annually on February 1st and August 1st. The funds are accumulated through monthly deposits to a sinking fund. Deposits were also made to a reserve fund until it reached a maximum of \$100,000 (largest annual interest & principal payment). A schedule of future bond and interest requirements follows:

Date	Bond Numbers	Principle	Interest	Total
2/1/1998	-	\$ -	\$ 18,188	\$ 18,188
8/1/1998	104 - 100	85,000	90,167	100,167
2/1/1999	-	-	95,000	95,000
8/1/1999	181 - 200	100,000	95,000	115,000
2/1/2000	-	-	11,250	11,250
8/1/2000	201 - 220	100,000	11,250	111,250
2/1/2001	-	-	7,500	7,500
8/1/2001	221 - 240	100,000	7,500	107,500
2/1/2002	-	-	3,750	3,750
8/1/2002	241 - 250	<u>100,000</u>	<u>3,750</u>	<u>103,750</u>
Totals		<u>\$ 485,000</u>	<u>\$ 111,375</u>	<u>\$ 596,375</u>

8. LITIGATION AND CLAIMS

As of December 31, 1997, the District has been named as co-defendant in two lawsuits with the Washington Parish Police Jury, and System Operators, Inc. At this time the outcome of these legal proceedings is uncertain. Because the District 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 incurred to defend these lawsuits.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1987

9. COMPENSATED ABSENCES

The District does not have any employees and therefore there is no provision for compensated absences.

10. LEASES

The District does not have any items under a capital or operating lease at December 31, 1987.

11. GAS REALIGNMENT

The Federal Energy Regulatory Commission issued order #608 restricting the sale of natural gas by pipeline companies. The Commission in this order #608 gave authority to the pipeline companies to pass along to its servicing customers the cost of realigning the contracts they had for purchasing gas supplies. The total realignment cost the Gas District No. 2 will have to reimburse Southern Natural Gas Co. was negotiated by Louisiana Municipal Gas Authority (as agent for the District), Louisiana Municipal Gas Authority and Southern Natural Gas Co. reached an agreement by which the District will pay an annual payment of \$9,793.90 for the years 1984, 1985, 1986 and 1987. The Gas District paid only \$6,043 during 1987 and Louisiana Municipal Gas Authority states that the total realignment cost has been paid.

12. ON-BEHALF PAYMENTS

Certain operating expenditures of the District are paid by the Washington Parish Police Jury. The District's office is located in a building leased by the Police Jury. The Police Jury 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

At the May 1988 board meeting the Board of Commissioners voted to pursue the refinancing of their bonded debt and to obtain additional financing for extensions and repairs of their existing lines. The new financing is to be handled through The U S D A-Rural Development Department. Bonds are to be issued in an amount not to exceed \$1,200,000. Payoff of the new financing would be over a period of twenty years.

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>1997</u>	<u>1996</u>
Clerical expenses	\$ 5,852	\$ 6,061
Accounting services	1,285	-
Taxes	2,428	2,028
Audit and legal expense	4,891	4,808
Board of Commissioners compensation	4,952	4,680
Paying agent fees	880	1,365
Warehouse rent	600	600
Supplies and expense office	915	880
Supplies and expense gas line	15,034	7,040
Repairs and maintenance	9,364	7,078
Telephones	1,202	627
One-call concept	1,500	680
Miscellaneous	458	1,388
	<u>\$ 49,090</u>	<u>\$ 38,121</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, 1987

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. 33:4008 B.(1).

	Meetings	Board Fees	Travel	Total
Will Smith, Jr.	12	\$ 800	\$ 130	\$ 1,030
Louis A. Jones	12	800	32	832
Ralph Riley	12	800	264	1,064
J. M. Thomas	11	800	128	928
Joe H. Davis	11	800	58	858
Totals		\$4,000	\$ 582	\$ 4,582

The Commissioners are appointed to the following terms on January 1, 1988

Will Smith, Jr.	1 year
Ralph Riley	2 years
Joe H. Davis	3 years
J. M. Thomas	4 years
Louis A. Jones	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 POLICE JURY
Monroe, Louisiana

STATEMENT OF CHANGES IN ASSETS
RESTRICTED FOR REVENUE BOND DEBT SERVICE

For the Year Ended December 31, 1997

	Sinking Fund	Reserve Fund	Total
Balance, January 1, 1997	\$ 38,750	\$ 100,000	\$ 168,750
Cash receipts:			
Transfers from operating account	68,000	-	68,000
Interest earnings	3,651	7,343	9,994
Transfers from reserve fund	7,318	(7,318)	-
Total funds available	<u>104,728</u>	<u>100,025</u>	<u>204,753</u>
Cash disbursements:			
Principal payments	75,000	-	75,000
Interest payments	42,000	-	42,000
Trust department fees	88	25	88
Total disbursements	<u>117,088</u>	<u>25</u>	<u>117,088</u>
Balance, December 31, 1997	<u>\$ 17,640</u>	<u>\$ 100,000</u>	<u>\$ 147,640</u>

**MANAGEMENT'S CORRECTIVE ACTION PLAN
AND
SUMMARY OF PRIOR YEAR FINDINGS**

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2

808 Pearl Street
FRANKLINTON, LOUISIANA 70438

Mr. Daniel Kyle
Legislative Audit Advisory Council
P. O. Box 84007
Baton Rouge, La. 70804-0087

Mr. Kyle:

The audit report, from Dunten and Adams CPAs, for the year ended December 31, 1987, contain reportable conditions for which we have made the following comments for corrective action:

Internal Control Report:

1. Because of limited funds and available work we are able to have only one clerk to take payments and prepare checks. In order to help this limited segregation of duties we have the CPA firm reconcile the bank accounts each month. We will also have the CPA firm do an impromptu cash count several times a year and balance the cash drawer. We do require the clerk to make daily deposits, and we review all bills before they are paid each month. Only designated board members sign prepared checks.
2. With the new financing we are attempting to get through the U.S.D.A we should be able to purchase a storage building and place it at our office location. This should give us better control over receipt of supplies and issuance of those supplies for work orders. We will require purchase orders for all purchases of supplies. Purchase orders with a work order reference will be required by our maintenance men when purchasing supplies in the field.

Compliance Report

We were unable to make the required deposits to the sinking fund during 1987. We were aware of a surplus in the sinking fund and were able to meet our bond debt payments for 1987. We will review the sinking fund deposit requirements each month and insure the sinking fund payments are made according to the bond indenture requirements.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2

909 Pearl Street
FRANKLINTON, LOUISIANA 70438

(continued)

Management Letter

1. We will demand that System Operator obtain a bond on the office clerk. If necessary we will purchase the bond and deduct the cost from the monthly billing fee.
2. At present the board and the system operator are proceeding on a month-by-month arrangement. We anticipate either signing a new contract or taking over the management of the system during 1988.
3. We are reviewing our present cut-off procedure, and will reduce the grace period from 60 days to 30 days. We will also have the office clerk send a standard notice giving 15 days for payment on any accounts paid off. After the 15 day period we will have our attorney write a collection letter on accounts in excess of \$100.

We will make every effort to comply with the recommendations suggested by our accountant by monitoring on a monthly basis each item contain in his report.

Sincerely,



Ralph Foley, Chairman
Washington Parish Gas
Utility District No. 2

Darden and Alingo

CERTIFIED PUBLIC ACCOUNTANTS

601-1174 WEAVER
FRANKLTON, LOUISIANA 70445
(504) 835-4111
FAX (504) 835-4100

William R. Darden

Deane W. Alingo

June 24, 1998

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

Dear Commissioners:

We completed our examination of the books and records of the Washington Parish Gas Utility District No. 2 for the year ended December 31, 1997 and have enclosed five copies of the report. As part of our examination, we examined various procedures and controls established by your office and accounting staff to insure proper reporting of financial transactions and compliance with various laws. There were reported conditions in the enclosed reports, and we have listed below other internal control weaknesses that were not material in nature but we feel you should be made aware of.

1. The office clerk handling all payments and receipts is not bonded. She is an employee of System Operators, Inc. and they should have her bonded. The District needs to have their attorney review the situation and advise the board of appropriate action to insure the clerk is bonded. The District needs to insure that a provision for reimbursement of any missing funds is either stated in their contract with System Operators, Inc. or in the insurance policy.
2. A contract with System Operators, Inc. has still not been signed. The last contract on file expired several years ago. Distinctions should be made between what items the District is to pay and what items are included in the service contract.

We suggest you hold System Operators, Inc. financially responsible for any accounts written off with balances over a certain amount.

Darden and Allyn

CERTIFIED PUBLIC ACCOUNTANTS

200 N. 17th Avenue
BIRMINGHAM, ALABAMA 35203
(205) 833-1111
FAX (205) 833-1141

William R. Darden

Deanna W. Allyn

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3. Accounts charged off in 1997 were still excessive. The time period (30 days) between billing and cut off is too long. Accounts not paid in one month should be cut-off in that same month. There is no collection policy set up to attempt to collect accounts once they have been cut-off. A policy should be established that would provide written evidence of efforts to collect delinquent accounts and why the account should be written-off.

Following is additional information for your review and analysis, which we feel will be of benefit for better management on your part.

Gas Losses

The Board should require that System Operators, Inc. present a report each month on gas losses. System Operators should explain any unusual losses. The Board needs to insure that the office clerk notifies L.M.G.A. immediately of any line leaks. L.M.G.A. will be able to adjust the District's gas bill if notified of a leak in the month the leak occurs. Following is a comparison of gas losses for the past five years.

	<u>Gas Purchases</u>	<u>Gas Sales</u>	<u>Gas Losses</u>	<u>% Lost</u>
	<u>(MCFs)</u>	<u>(MCFs)</u>	<u>(MCFs)</u>	
1992	50,185	42,804	7,381	14.72%
1993	62,624	43,847	18,777	30.01%
1994	44,055	43,516	539	1.22%
1995	48,180	48,108	772	1.60%
1996	55,480	47,816	7,664	14.00%
1997	57,261	46,400	10,861	19.00%

As you can see gas losses have increased dramatically over the past two years. Steps need to be taken to find the cause for these losses and get it corrected.

Darden and Altonge

CERTIFIED PUBLIC ACCOUNTANTS

431 F STREET, S.W.
WASHINGTON, D. C. 20004-7001
(202) 638-4200
FAX (202) 638-4462

William R. Darden

Bonnie W. Altonge

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New Customers

The Board should continue to look for new customers either through new incentive programs or through line extensions. Listed below for comparative purposes is the customer count at year end and average customer count for the past five years:

	<u>Customers at Year End</u>	<u>Average Number of Customers</u>
1992	951	920
1993	958	935
1994	976	953
1995	987	968
1996	970	960
1997	974	954

The average number of customers for 1997 decreased. You should look at methods to discourage customers from disconnecting during the summer months. The number of customers at year end is still a long way from the original estimate of customers the system was to handle.

The financial position of the District has begun to slip away again. There was marked improvement for three years but the last two have fallen off. By solving the gas loss problem in 1995 and making a concerted effort to increase customers the District's financial condition should improve.

Very truly yours,

William R. Darden
Darden & Altonge
Certified Public Accountants