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REPORT

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

**Component Unit Financial Statements
and Auditor's Reports
As of and for the Years Ended
December 31, 1998 and 1997
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 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 7-28-99

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

Component Unit Financial Statements
As of and for the Year Ended December 31, 1998
With Supplemental Information Schedule

C O N T E N T S

	<u>Page No.</u>
AUDITOR'S REPORT.....	1 - 2
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	3 - 6
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	7 - 8
FINANCIAL STATEMENTS	
Balance Sheet.....	9 - 10
Statement of Revenues, Expenses and Changes in Retained Earnings.....	11
Statement of cash flows.....	12
Statement of Revenue and Expenses - Budget and Actual.....	13
NOTES TO FINANCIAL STATEMENTS.....	14 - 24
SUPPLEMENTAL INFORMATION	
General and Administrative Expense-Schedule 1.....	25
Board of Commissioners Compensation-Schedule 2.....	26
Statement of changes in assets restricted for revenue bond debt service - Schedule 3.....	27
REPORT OF MANAGEMENT'S CORRECTIVE ACTION PLAN.....	28 - 29

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William R. Durden

Donna W. Alongo

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

Commissioners:

We have audited the accompanying financial statements as listed in the table of contents of the Washington Parish Gas Utility District No. 2, (a component unit of the Washington Parish Council) as of December 31, 1998 and 1997, 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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Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue in order for financial statements to be prepared in conformity with generally accepted accounting principles. Such required disclosures include:

- any significant amount of resources committed to make computer systems and other electronic equipment year 2000-compliant;
- a general description of the year 2000 issue, including a description of the stages of work in progress or completed as of the end of the reporting period to make computer systems and other electronic equipment, critical to conducting operations, year 2000-compliant; and the additional stages of work necessary for making the computer systems and other electronic equipment year 2000-compliant.

Washington Parish Gas Utility District No. 2 has disclosed in note number 14, contained in the notes to financial statements, compliant measures taken concerning the purchasing and selling of natural gas. However; we do not provide assurance that the District is or will be year 2000 ready, nor that the District's year 2000 re-mediation efforts will be successful in whole or in part, or that parties with which the District does business will be year 2000 ready.

In our opinion, except for the uncertainties discussed in the preceding paragraph concerning the year 2000 readiness, 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 Council) as of December 31, 1998 and 1997, and the results of its operations and it's cash flows for the years then ended in conformity with generally accepted accounting principles.

Durden & Alonzo

Durden and Alonzo
Certified Public Accountants

June 17, 1999

Durden and Alonzo

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

We have audited the financial statements of the Washington Parish Gas Utility District No. 2 (a component unit of the Washington Parish Council) of and for the years ended December 31, 1998 and December 31, 1997, and have issued our report thereon dated June 17, 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.

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, 1998 and 1997, 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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(continued)

- Finding: Lack of control over meter and supplies purchases.
- Cause: Purchase orders are not used for most purchases. The office clerk, both maintenance men, and the manager purchase supplies (meters and line supplies). No one verifies the receipt of the items and they are housed in a very insecure shed. As items are purchased (by maintenance men) or used from the inventory, no reference is made to a work order.
- Recommendation: Require all items be purchased through issuance of purchase orders signed by the system manager or a specified board member. On purchase orders for supplies purchased in the field, a work order should be referenced. Items taken from supply inventory should also reference a work order.

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

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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 17, 1999.

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

Durden & Alonzo

Durden and Alonzo
Certified Public Accountants

June 17, 1999

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

We have audited the financial statements of the Washington Parish Gas Utility District No. 2, a component unit of the Washington Parish Police Jury, as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated June 17, 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 \$122,000. to be made during the year ended December 31, 1998. However, deposits of only \$102,000 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 1998 component unit financial statements are presented fairly in all material requests in conformity with generally accepted accounting principles, and this report does not affect our report dated June 17, 1999, 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 Council, and the State of Louisiana Legislative Auditor. However, the report is a matter of public record and its distribution is not limited.

Durden & Alonzo
Durden and Alonzo
Certified Public Accountants

June 17, 1999

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,

	1998	1997
<u>ASSETS</u>		
Current assets:		
Cash	\$ 1,908	\$ 5,193
Accounts receivable	49,687	97,586
Less allowance for bad debts	(6,517)	(6,158)
Unbilled revenue	24,336	-
Inventory	7,348	2,838
Accrued interest receivable	165	3,175
Total current assets	76,927	102,634
Restricted assets:		
Revenue Bonds Reserve Fund	130,000	130,000
Revenue Bonds Sinking Fund	9,350	17,666
Customer's meter deposit fund	33,303	31,373
Line extension construction deposits	5,500	-
Total restricted assets	178,153	179,039
Property and equipment:		
Gas line system	1,131,623	1,131,623
Gas meters	12,440	12,440
Office equipment	4,087	4,087
Other equipment	2,896	2,896
Total property and equipment	1,151,046	1,151,046
Less accumulated depreciation	(685,612)	(655,287)
Net property and equipment	465,434	495,759
 Total Assets	 \$ 720,514	 \$ 777,432

See accompanying notes to the financial statements

STATEMENT A

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

BALANCE SHEET
As at December 31,

<u>LIABILITIES AND FUND EQUITY:</u>	<u>1998</u>	<u>1997</u>
Current Liabilities:		
Accounts payable	\$ 196,895	\$ 192,827
Accrued expenses	1,257	2,546
Total current liabilities	<u>198,152</u>	<u>195,373</u>
Current Liabilities: (Payable from Restricted Assets)		
Revenue bonds payable- current portion	100,000	85,000
Accrued interest - revenue bonds	12,472	15,123
Customers' meter deposits	33,303	31,373
Customer construction deposits	5,500	
Total current liabilities (Restricted Assets)	<u>151,275</u>	<u>131,496</u>
Long-term liabilities:		
Revenue bonds payable	400,000	485,000
Less current portion	<u>(100,000)</u>	<u>(85,000)</u>
Total long-term liabilities	<u>300,000</u>	<u>400,000</u>
 Total liabilities	 649,427	 726,869
Fund Equity:		
Retained earnings:		
Unreserved	50,563	12,252
Net income	20,524	38,311
Total Fund Equity	<u>71,087</u>	<u>50,563</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 720,514</u>	 <u>\$ 777,432</u>

See accompanying notes to the financial statements

STATEMENT B

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

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

	<u>1998</u>	<u>1997</u>
Operating revenues:		
Gas sales	\$ 399,247	\$ 453,789
Forfeited discounts	10,949	11,393
Overread meters and adjustments	(11,225)	(9,884)
Miscellaneous income	4,575	6,113
Total operating revenues	<u>403,546</u>	<u>461,411</u>
Operating expenses:		
Cost of gas sold	197,401	218,970
Gas realignment costs	5,437	6,040
Billing services	74,828	74,406
Line relocation	-	10,831
Bad debt provision	6,792	4,566
General and administrative (schedule 1)	43,851	49,690
Depreciation	30,325	29,293
Total operating expenses	<u>358,634</u>	<u>393,796</u>
Operating income (loss)	44,912	67,615
Non-operating revenue:		
Interest income	9,336	10,427
Other charges:		
Revenue bond interest expense	<u>(33,724)</u>	<u>(39,731)</u>
Net Income (Loss)	20,524	38,311
Retained earnings (deficit)		
Beginning of year	<u>50,563</u>	<u>12,252</u>
Retained earnings (deficit)		
End of year	<u>\$ 71,087</u>	<u>\$ 50,563</u>

See accompanying notes to the financial statements

STATEMENT C

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

STATEMENT OF CASH FLOWS
For Year Ended December 31,

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Operating Income	\$ 44,912	\$ 67,615
Adjustments to reconcile operating income provided by operating activities:		
Depreciation	30,325	29,293
(Increase) decrease in accounts receivable	23,922	(22,960)
(Increase) decrease in inventory	(4,510)	13,766
(Increase) decrease in other assets	3,010	508
Increase (decrease) in accounts payable	4,068	20,071
Increase (decrease) in accrued liabilities	(1,289)	372
Increase (decrease) in interest payable	(2,650)	(2,339)
Total adjustments	<u>52,876</u>	<u>38,711</u>
Net cash provided (used) by operating activities	<u>97,788</u>	<u>106,326</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(85,000)	(75,000)
Interest payments	(36,375)	(42,000)
Interest earnings on sinking & reserve fund	11,059	9,910
Decrease (increase) in sinking fund	8,316	21,090
Payments for capital acquisitions		(24,964)
Net cash provided (used) by financing activities	<u>(102,000)</u>	<u>(110,964)</u>
Cash flows from investing activities:		
Receipts for interest (other than from restricted assets)	<u>927</u>	<u>2,856</u>
Net cash provided (used) from investing	<u>927</u>	<u>2,856</u>
Net increase (decrease) in cash and equivalents	(3,285)	(1,782)
Cash and cash equivalents, beginning of year	<u>5,193</u>	<u>6,975</u>
Cash and cash equivalents, end of year	<u>\$ 1,908</u>	<u>\$ 5,193</u>

See accompanying notes to the financial statements

STATEMENT D

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

Statement of Revenues and Expenses-Budget to Actual

December 31, 1998

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Gas sales, forfeited discounts, overread meters and adjustments	\$ 398,800	\$ 398,971	171
Miscellaneous income	4,074	4,575	501
Interest income	9,950	9,336	(614)
Total operating revenues	<u>412,824</u>	<u>412,882</u>	<u>58</u>
Operating deductions:			
Cost of gas sold	213,700	202,838	10,862
Bond interest	33,725	33,724	1
Billing services	75,000	74,828	172
Provision for bad debts	8,000	6,792	1,208
Repairs	2,700	2,325	375
Meter replacement	2,025	2,024	1
Leak survey	4,200	4,200	
Line supplies	5,600	6,508	(908)
Clerical	6,000	5,934	66
Taxes	2,028	2,228	(200)
Legal and accounting	6,750	6,927	(177)
Board fees	5,175	5,121	54
Warehouse rent	600	600	-
Office supplies	1,100	988	112
Advertising	1,250	1,224	26
Telephone	1,500	1,388	112
Depreciation	30,325	30,325	-
Miscellaneous	3,800	4,384	(584)
Total operating deductions	<u>403,478</u>	<u>392,358</u>	<u>11,120</u>
Operating income	<u>\$ 9,346</u>	<u>\$ 20,524</u>	<u>\$ 11,178</u>
Debt Service Budget:			
Sinking fund transfers	<u>\$ 122,000</u>	<u>\$ 110,000</u>	<u>\$ (12,000)</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, 1998

INTRODUCTION

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

B. REPORTING ENTITY

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1998

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1998

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

C. FUND ACCOUNTING

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

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund is accounted for on a "flow of economic resources" measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The District uses the following practices in recording certain revenue and expenses:

Revenues

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1998

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 1998 was presented at the October 1997 meeting and adopted at the November 1997 board meeting. The budget is prepared on the accrual basis of accounting, with additional provision made for bond debt service. The board forwarded a copy of the approved budget to the Washington Parish Council. The board reviews the budget actual comparison on a monthly basis as a part of their management of the system. The 1998 budget was amended at the November 1998 board meeting. The 1999 budget was presented at the October 1998 meeting and approved at the November 1998 meeting.

F. CASH AND CASH EQUIVALENTS

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

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

G. INVENTORIES

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1998

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 Bank One, 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, and homeowner \$100.

J. FIXED ASSETS

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

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1998

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, 1998, the district has unrestricted cash and cash equivalents (book balances) totaling \$1,908 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, 1998, the District has \$21,398 in deposits (collected bank balances). These deposits are secured from risk by \$100,000 of federal deposit insurance.

3. RESTRICTED ASSETS

At December 31, 1998, the District had restricted funds (collected bank balances) as follows:

	<u>Collected Bank Balances</u>	<u>Book Value</u>
Meter Deposit Funds:		
Demand deposits	\$ 10,903	\$ 9,750
Interest-bearing demand deposits	16,553	16,553
Time deposits	7,000	7,000
	<u>Market Value</u>	<u>Book Value</u>
Sinking and Reserve Fund:		
U S Government Securities	\$139,350	\$139,350

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1998

During 1998 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, 1998 - \$56,120 plus unbilled revenue of \$24,336, less accounts to be written off of \$6,433.

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 \$399,247.	1996 \$8,439.
Average charge-off <u>x 1.36%</u>	1997 4,680.
	1998 <u>6,433.</u>
<u>\$ 5,430.</u>	19,552.
	-:- 3
	<u>\$ 6,517.</u>
Allowance account balance 1/01/98	\$ 6,158.
Less current year charge-off	(6,433.)
Current year provision	<u>6,792.</u>
Allowance account balance 12/31/98	<u>\$ 6,517.</u>

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1998

6. FIXED ASSETS

All fixed assets are stated at historical cost. Following is a summary of the activity in the fixed asset accounts for 1998:

	Balance	Additions	Deletions	Balance
Gas system	\$ 1,131,623	\$ -	\$ -	\$ 1,131,623
Gas meters	12,440	-	-	12,440
Office equipment	4,087	-	-	4,087
Other equipment	2,896	-	-	2,896
Totals	<u>\$ 1,151,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,151,046</u>

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

	Cost	Accumulated Depreciation	Net
Gas system	\$ 1,131,623	\$ 672,937	\$ 458,686
Gas meters	12,440	8,044	4,396
Office equipment	4,087	2,890	1,197
Other equipment	2,896	1,741	1,155
Totals	<u>\$ 1,151,046</u>	<u>\$ 685,612</u>	<u>\$ 465,434</u>

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, 1998

7. REVENUE BONDS PAYABLE

The current balance of \$400,000 of par value Gas Utility Revenue Bonds dated August 1, 1972 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 - 260 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 \$130,000 (largest annual interest & principal payment). A schedule of future bond and interest requirements follows:

Date	Bond Numbers	Principle	Interest	Total
2/1/1999	-	-	15,000	15,000
8/1/1999	181 - 200	100,000	15,000	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 - 260	100,000	3,750	103,750
Totals		<u>\$ 400,000</u>	<u>\$ 75,000</u>	<u>\$ 475,000</u>

8. LITIGATION AND CLAIMS

As of December 31, 1998, the District has been named as co-defendant in two lawsuits with the Washington Parish Council, and System Operators, Inc. At this time the outcome of these legal proceedings is unknown. 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.

9. COMPENSATED ABSENCES

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1998

10. LEASES

The District does not have any items under a capital or operating lease at December 31, 1998.

11. GAS REALIGNMENT

The Federal Energy Regulatory Commission issued order #636 restricting the sale of natural gas by pipeline companies. The Commission in this order #636 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 1994, 1995, 1996 and 1997. The Gas District paid only \$6,040 during 1997 and only \$5,437 in 1998. Louisiana Municipal Gas Authority states that the total realignment cost has been paid as of December 31, 1998.

12. ON-BEHALF PAYMENTS

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

13. SUBSEQUENT EVENTS

In May of 1998 the board voted to pursue the re-financing of their bonded debt and to obtain additional financing for extensions and repairs of their existing lines. The new financing is to be handled through The U S D A-Rural Development Department. Bonds are to be issued on August 1, 1999 in an amount not to exceed \$758,000. Payoff of the new financing would be over a period of twenty years. The extension of lines would increase the number of customers being served by sixty. If for some reason this refinancing of debt does not take place there will not be sufficient funds in the sinking fund to pay the bond interest and principle due August 1, 1999. Funds of approximately \$75,000 would have to be withdrawn from the reserve fund.

The board voted at their May 1999 meeting to terminate the service agreement with System Operators. The District intends to operate the utility system with their own serviceman and their own office clerk. In 1998 billing services amounted to \$74,828. The board estimates the expenses of the serviceman, office clerk, computer, service truck, and billing supplies should be around \$48,800.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 1998

14. YEAR 2000 ISSUES

In May of 1999 the Board voted to take over operation of the district and in June authorized the purchase of computer hardware and software to do the monthly billing. This new computer hardware and software will be Y2K compliant, and should provide a smooth billing transition into the year 2000. The District also has written confirmation from Southern Natural Gas Company that their transmission lines and meters are year 2000 compliant. These items listed above should afford assurances to the District that it will be able to provide gas to its customers and properly bill them for their use of natural gas. The District has made arrangements to borrow funds for the purchase of computer hardware (\$1,700), software (\$1,500), and billing supplies (\$1,000).

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>1998</u>	<u>1997</u>
Clerical expenses	\$ 5,934	\$ 5,852
Accounting services	1,600	1,985
Taxes	2,228	2,428
Audit and legal expense	5,327	4,891
Board of Commissioners compensation	5,121	4,952
Paying agent fees	1,410	889
Warehouse rent	600	600
Supplies and expense-office	988	915
Supplies and expense-gas line	6,508	15,034
Repairs and maintenance	2,325	9,364
Meter replacement	2,024	-
Telephone	1,388	1,202
One-call concept	701	1,160
Leak survey	4,200	-
Advertising	1,224	-
Miscellaneous	<u>2,273</u>	<u>418</u>
Total	<u>\$ 43,851</u>	<u>\$ 49,690</u>

Schedule 2

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

BOARD OF COMMISSIONERS COMPENSATION

For the Year Ended December 31, 1998

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

Will Smith Jr.	12	\$ 900	\$ 200	\$ 1,100
Louis A. Jones	11	825	38	863
Ralph Riley	12	900	283	1,183
J. M. Thomas	12	900	107	1,007
Joe H. Davis	12	900	67	967
Totals		<u>\$4,425</u>	<u>\$695</u>	<u>\$ 5,120</u>

The Commissioners are appointed to the following terms on January 1, 1998

Will Smith, Jr.	1 year
Ralph Riley	2 years
J. M. Thomas	3 years
Joe Davis	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
Franklinton, Louisiana

STATEMENT OF CHANGES IN ASSETS
RESTRICTED FOR REVENUE BOND DEBT SERVICE

For the Year Ended December 31, 1998

	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Balance, January 1, 1998	\$ 17,666	\$ 130,000	\$ 147,666
Cash receipts:			
Transfers from operating account	102,000	-	102,000
Interest earnings	2,118	9,206	11,324
Transfers from reserve fund	8,969	(8,969)	-
Total funds available	<u>130,753</u>	<u>130,237</u>	<u>260,990</u>
Cash disbursements:			
Principal payments	85,000	-	85,000
Interest payments	36,375	-	36,375
Trust department fees	28	237	265
Total disbursements	<u>121,403</u>	<u>237</u>	<u>121,640</u>
Balance, December 31, 1998	<u>\$ 9,350</u>	<u>\$ 130,000</u>	<u>\$ 139,350</u>

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

Durden and Alongo
CERTIFIED PUBLIC ACCOUNTANTS
820 11TH AVENUE
FRANKLINTON, LOUISIANA 70438
(504) 839-4413
FAX (504) 839-4402

RECEIVED
JUN 25 11:10:35

William R. Durden

Donna W. Alongo

June 17, 1999

Board of Commissioners
Washington Parish Gas
Utility District No. 2
Franklinton, 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, 1998 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. Also, Board members who have been authorized to sign checks should also be bonded.
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.

3. Accounts charged off in 1998 are still excessive. The time period (60 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.

Durden and Alongo

CERTIFIED PUBLIC ACCOUNTANTS

820 11TH AVENUE
FRANKLINTON, LOUISIANA 70438
(504) 839-4413
FAX (504) 839-4402

William R. Durden
Page 2

Donna W. Alongo

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> (MCF'S)	<u>Gas Sales</u> (MCF'S)	<u>Gas Loss</u> (MCF'S)	<u>% Loss</u>
1993	50,524	43647	6,877	13.61%
1994	44055	43016	1,039	2.36%
1995	48160	45106	3,054	6.34%
1996	55490	47616	7,874	14.19%
1997	57361	46403	10,958	19.10%
1998	57478	36494	20,984	36.51%

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

New Customers

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

	<u>Customers at</u> <u>Year End</u>	<u>Average Number</u> <u>of Customers</u>
1993	969	935
1994	976	953
1995	987	968
1996	970	966
1997	974	954
1998	963	959

The average number of customers for 1998 increased by five and the number of customers at year-end decreased by eleven. The increase in the average number of customers is a positive move for the District, but you must continue to try to attract new customers.

Durden and Alonzo

CERTIFIED PUBLIC ACCOUNTANTS

820 11TH AVENUE
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(504) 839-4413
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William R. Durden

Donna W. Alonzo

Page 3

The financial position of the District continues to decrease because of the excessive gas losses and the lack of customers. There was marked improvement for three years but the last three have shown a decline. The gas loss problem must be solved if the District is to be able to continue as an operating entity.

Very truly yours,

Durden & Alonzo
Durden & Alonzo,
Certified Public Accountants

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2

215 11TH AVENUE
FRANKLINTON, LOUISIANA 70438

Mr. Daniel Kyle
Legislative Audit Advisory Council
P. O. Box 94397
Baton Rouge, La. 70804-9397

Mr. Kyle:

The audit report, from Durden and Alonzo CPAs, for the year ended December 31, 1998; 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. We should be receiving our new financing by August 1, 1999 from U S D A Rural Development. With this money we will pay off our current bonded debt of \$400,000, construct an extension to our gas line, replace old meters, and purchase a storage shed for our supplies. This should give us better control over receipt of supplies and issuance of those supplies through work orders. Purchase orders with a work order reference will be required by our maintenance men when purchasing supplies in the field. We will require the purchase orders to reference a work order and be approved by a designated board member.

Compliance Report

We were unable to make the required deposits to the sinking fund during 1998. We were aware of a surplus in the sinking fund and were able to make sufficient deposits to meet our bond debt payments for 1998. We will use part of the proceeds from our new financing to pay the bond and interest payment due August 1, 1999. Our annual debt service on our new financing should be approximately \$68,500 as opposed to the current annual debt service of \$121,000.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2

215 11TH AVENUE
FRANKLINTON, LOUISIANA 70438

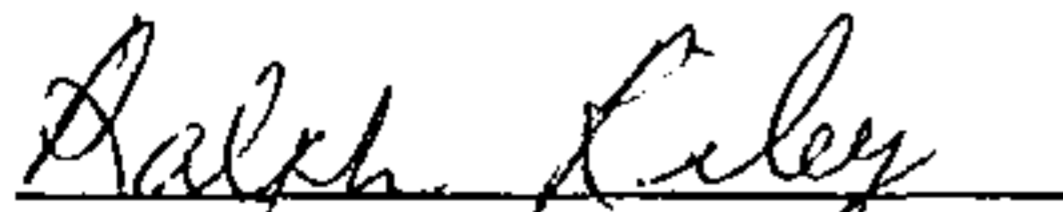
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Management Letter

1. Effective June 1, 1999, we have obtained liability insurance and have purchased fiduciary bonds for the office clerk and board members who sign checks.
2. Effective July 15, 1999, we will be taking over operation of the district with our own employees. We feel this will reduce our operating expenses by some \$25,000 and give us better control over employee functions.
3. Once we have taken over operation of the system we feel we can establish a cut-off procedure that will reduce the amount of a delinquent account. We will also have the office clerk send a standard notice giving 10 days for payment on any accounts not paid off. After the 10 day period we will have our attorney write a collection letter on accounts in excess of \$100. By establishing a fixed billing date for every month we feel our collection and cut-off policy will be easier to enforce.
4. Part of the funds from the re-financing of our bonded debt will be used to replace approximately 200 meters on our current system. We feel this is a major source of our gas losses and should reduce the percentage of gas lost each year. This meter replacement should be completed by the end of 1999. We had a leak survey done in 1998 to attempt to locate any serious leaks. The survey, however, only uncovered some small minor leaks. We did have a major leak in March of 1998, that ran for over two weeks. It was fixed as soon as it was discovered. Once our new debt service is in place and we have reduced our operating expenses by taking over the operation of the system, we feel we will have funds available to begin replacing more meters.

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 Riley, Chairman
Washington Parish Gas
Utility District No. 2