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TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATION

AND MAINTENANCE FUND

(Audited Financial Statements and Other Information)

JUNE 30, 2013

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATION AND MAINTENANCE FUND

JUNE 30, 2013

TABLE OF CONTENTS

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June 18, 2014

Honorable Mayors of the
Towns of Newellton and St. Joseph, Louisiana
Jointly Owned Gas Line Operation and Maintenance Fund
St. Joseph, Louisiana

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Towns of Newellton and St. Joseph, Louisiana Jointly Owned Gas Line Operation and Maintenance Fund (Joint Gas Line) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Joint Gas Line's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Joint Gas Line as of June 30, 2013, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 7 to the financial statements, the Joint Gas Line has adopted the provisions of GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2014, on our consideration of the Joint Gas Line's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Joint Gas Line's internal control over financial reporting and compliance.

Heard, McElroy & Vestal, LLC

Shreveport, Louisiana

REQUIRED SUPPLEMENTARY INFORMATION

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA
JOINTLY OWNED GAS LINE OPERATION AND MAINTENANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2013

As management of the Joint Gas Line, we offer readers of the Joint Gas Line financial statements this narrative overview and analysis of the financial activities of the Joint Gas Line for the fiscal year ended June 30, 2013. It is designed to assist the reader in focusing on significant financial issues, identify changes in the Joint Gas Line's financial position, and identify material deviations and individual fund issues or concerns.

Financial Highlights

- The assets of the Joint Gas Line exceeded its liabilities at the close of the most recent fiscal year by $167,581 (net position). Of this amount, $167,581 (unrestricted net position) represents the portion of net position which is not invested in capital assets or otherwise restricted.

- The government's total net position increased by $26,122 during the year ended June 30, 2013. This was the result of a net income of $26,122.

Overview of the Financial Statements

Under the provision of **GASB Statement 14**, "The Financial Reporting Entity." the Joint Gas Line is considered a special-purpose, stand-alone unit of the local government.

This discussion and analysis is intended to serve as an introduction to the Joint Gas Line's basic financial statements. The Joint Gas Line's basic financial statements are comprised of the following components: 1) Statement of Net Position, 2) Statement of Activities, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The Statement of Net Position presents information on all of the Joint Gas Line's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Joint Gas Line is improving or deteriorating.

The Statement of Activities presents information showing how the Joint Gas Line's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of related cash flows.

Fund Financial Statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Joint Gas Line, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Joint Gas Line can be reported as in one category: a proprietary fund.

Proprietary Funds. The Joint Gas Line maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements can be found on pages 6, 7, and 8 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 9 of this report.

Government-Wide Financial Analysis

As noted earlier, net position serves over time as a useful indicator of a government's financial position. In the case of the Joint Gas Line, assets exceeded liabilities by approximately $181,728 at the close of the most recent fiscal year.

For the years ended June 30, 2013 and 2012, net position changed as follows:

	2013	2012
Beginning- net position	141,459	242,786
Increase (decrease) in net position	26,122	48,673
Distributions (rebates to partners)	-	(150,000)
Ending - net position	167,581	141,459

The following schedule presents a summary of revenues and expenses for the years ended June 30, 2013 and 2012.

	2013	2012
Revenues:		
Charges for services	255,447	235,428
Interest income	188	279
Total	255,635	235,707
Expenses:		
Cost of sales	186,521	145,057
Other expenses	42,992	41,977
Total	229,513	187,034
Net income	26,122	48,673

Business-Type Activities. Business-type activities increased the Joint Gas Line's net position by $25,934 and interest income increased net position by $188. This resulted in a net increase of $26,122 in net position.

Capital Asset and Debt Administration. The government has no capital assets or outstanding debt.

Economic Factors and Next Year's Rates

Factors considered in planning for the Joint Gas Line's 2014 fiscal year included the impact that will be made by fluctuating gas prices. This could impact the Joint Gas Line's revenue and cost of sales.

Requests for Information

This financial report is designed to provide a general overview of the Joint Gas Line's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Mayor, Town of St. Joseph, Louisiana, 125 Plank Road, St. Joseph, Louisiana 71366.

BASIC FINANCIAL STATEMENTS

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

STATEMENT OF NET POSITION

JUNE 30, 2013

ASSETS

Cash	116,943
Accounts receivable, (net of allowance for doubtful accounts of $17,491)	68,972
Total assets	185,915

LIABILITIES AND NET POSITION

Liabilities:	
Accounts payable and accrued expenses	18,171
Customer deposits	163
Total liabilities	18,334
Net position:	
Unrestricted net position	167,581
Total liabilities and net position	185,915

The accompanying notes are an integral part of these financial statements.

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

Revenues:	
Charges for services	255,447
Cost of sales	186,521
Gross profit from operations	*68,926*
Expenses:	
Salaries and wages	24,000
Payroll taxes	1,116
Professional fees	9,333
Repair and maintenance	3,470
Other	5,073
Total expenses	42,992
Operating income	25,934
Non-operating income and expenses:	
Interest income	188
Net income	26,122
Net position, beginning of year	141,459
Net position, end of year	167,581

The accompanying notes are an integral part of these financial statements.

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

Cash flows from operating activities:	
Receipts from customers	290,355
Payments for employee services	(25,913)
Payments to suppliers	(189,070)
Payments for other expenses	(15,831)
Net cash provided by operating activities	59,541
Cash flows from investing activities:	
Interest income	188
Net cash provided by investing activities	188
Net increase in cash	59,729
Cash at beginning of year	57,214
Cash at end of year	116,943
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	25,934
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in:	
Accounts receivable	25,451
Accounts payable and accrued expenses	8,156
Total adjustments	33,607
Net cash provided by operating activities	59,541

The accompanying notes are an integral part of these financial statements.

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

INTRODUCTION

The Town of Newellton and the Town of St. Joseph, Louisiana Jointly Owned Gas Line Operations and Maintenance Fund (the Joint Gas Line) is a joint venture of the two Northeast Louisiana towns. Its purpose is to provide natural gas to the two towns for resale to their citizens and approximately fifteen other customers in the service area. The gas is transmitted from the Lake St. Joseph gas field by way of pipelines to the towns. The Board of Aldermen and the Mayors of the two Towns govern the Joint Gas Line.

1. Summary of Significant Accounting Policies

(a) Basis of Presentation - Fund Accounting

The accompanying financial statements of the Joint Gas Line have been prepared in conformity with accounting principles generally accepted in the United States of America (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 municipal governing authority, for reporting purposes, the Joint Gas Line is considered a separate reporting entity. The financial reporting entity consists of (a) the primary government, the Joint Line, (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.

Under the provisions of **Governmental Accounting Standards Board Statement No. 14,** *"The Financial Reporting Entity"*, the Joint Gas Line is considered a special-purpose, stand-alone unit of local government. Both towns share equally in the financial accountability and management, thus it cannot be a component unit of either.

(c) Fund Accounting

The Joint Gas Line uses a fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions.

A fund is a separate accounting entity with a self-balancing set of accounts. The Joint Gas Line uses the proprietary fund for all of its operations. A description of the proprietary fund is as follows:

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

1. <u>Summary of Significant Accounting Policies</u> **(Continued)**

The Joint Gas Line functions as an Enterprise-type Proprietary fund to account for operations (a) where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determinations of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(d) **<u>Basis of Accounting</u>**

On July 1, 2003, the Joint Gas Line adopted the provisions of the **Governmental Accounting Standards Board Statement No. 34,** "*Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments*". Statement No. 34 establishes standards for external reporting for all state and local governmental entities, which includes a Statement of Net Position, a Statement of Activities, and a Statement of Cash Flows. It also requires the classification of net position into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings attributed to the acquisition, construction, or improvement of those assets.

Restricted net position – This component of net position consists of those net position on which constraints have been placed externally by creditors (such as through debt covenant), grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The Joint Gas Line has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued since November 30, 1989 unless they are adopted by the GASB.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are 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 operations of these funds are included on the statement of net position. The proprietary fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

The Joint Gas Line distinguishes operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services in connections with the Joint Gas Line's principal ongoing operations. Their principal operating revenues are charges to customers for service. Customers are billed monthly for the service received during the month. Operating expenses include the cost of services and administrative expenses. All revenues not meeting this definition are reported as non-operating revenues and expenses.

The charges for these services are as follows:

1. **Summary of Significant Accounting Policies** **(Continued)**

1. The Joint Gas Line is charged each month for the gas it uses. This varies from month to month but averages $4.25 per MCF delivered in the fiscal year ended June 30, 2013. In addition to the charges for the gas delivered, the Locust Ridge Gas Company charges the Joint Line an additional $1.00 per MCF for gas transportation fees, which would average $5.25 per MCF monthly.

2. All commercial and residential customers are billed monthly at a charge of $12.00 per MCF delivered.

3. The Town of Waterproof, Louisiana and the Locust Ridge Gas Company are charged $.20 and $.07, respectively, for each MCF that they transport through the pipeline owned jointly by the Towns of Newellton and St. Joseph, Louisiana.

(e) **Budgets**
The Joint Gas Line is not required to and does not adopt a budget.

(f) **Cash and Cash Equivalents**
Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits. Cash equivalents include amounts in those time deposits and investments with maturities of 90 days or less. Under state law, the Joint Gas Line may deposit funds in demand deposits, money market accounts, or time deposits with state banks organized under Louisiana Law and national banks with principal offices in Louisiana.

(g) **Use of Estimates**
The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expense during the reported period. Actual results could differ from those estimates.

2. **Cash and Investments**
State statutes require the Joint Gas Line to invest surplus cash balances in obligations of the United States Treasury, time certificates of deposit, and any other federally insured investments. At June 30, 2013, the Joint Gas Line had cash and investments (book balances) as follows:

Demand deposits	116,943
Time deposits	-
	116,943

Under state law, federal deposit insurance or the pledge of securities owned by the fiscal agent bank must secure these deposits (or resulting bank balances). The market value of each of the pledged securities plus federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent in a holding custodial bank that is mutually acceptable to both parties.

At June 30, 2013, the Joint Gas Line had $117,784 in deposits (collected bank balances). These balances are secured from risk by $117,784 of Federal deposit insurance and $-0- of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 2.) Even though the pledged securities (if present)

2. Cash and Investments (Continued)

are considered uncollateralized (Category 2) under the provisions of (GASB) Statement 3, Louisiana Revised Statutes 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the Joint Gas Line that the fiscal agent failed to pay deposited funds upon demand.

3. Accounts Receivable

Trade accounts receivable at June 30, 2013 are summarized as follows:

Towns of Newellton and St. Joseph, Louisiana	67,158
Other customers	19,305
	86,453
Less allowance for doubtful accounts	(17,491)
Net accounts receivable	68,972

The Joint Gas Line has elected to record its bad debts using the allowance for doubtful accounts method. The amount that is charged to the allowance account is determined by the use of historical collection data and specific account analysis.

4. Related Party Transactions

The towns of Newellton and St. Joseph, Louisiana jointly own the gas line that supplies natural gas to each of the towns. Each town purchases gas from the Joint Gas Line for resale to their citizens. For the year ended June 30, 2013, the purchase of gas by each town was as follows:

Town of Newellton, Louisiana	97,610
Town of St. Joseph, Louisiana	109,120
	206,730

As of June 30, 2013, the amount due from each town for gas purchases was as follows:

Town of Newellton, Louisiana	2,970
Town of St. Joseph, Louisiana (net of payable of $14,149)	64,188
	67,158

5. Commitments, Contingencies, and Concentrations

The Joint Gas Line purchases 100% of the natural gas it sells from Locust Ridge Gas Company. Locust Ridge Gas Line, which is owned by a private investor, has continued to supply natural gas to the Joint Gas Line without a signed contract. At June 30, 2013, the Joint Gas Line is still in negotiations with the owner for the continuation of the supply of natural gas, but no contract has been signed by either party.

The August 1999 contract between Locust Ridge and the Joint Line is still applicable until the Boards of Aldermen agree to a new contract.

6. Subsequent Events

On September 10, 2013, the Joint Gas Line made a distribution to each partner (Towns of Newellton and St. Joseph, Louisiana) of $60,000 for a total of $120,000.

6. **<u>Subsequent Events</u>** **(Continued)**

Subsequent to June 30, 2013, but prior to the issuance of these financial statements, the Joint Gas Line became party to two (2) active claims of litigation. The following is a summary of the active litigation, and the user of the financial statements should contact the Fund's management for a more detailed description of the claims.

<u>Locust Ridge Gas Company, LLC (Locust Ridge) vs. the Fund</u>, filed April 2, 2014 by the Locust Ridge alleging the current gas contracts and any extensions terminated November 1, 2013 and that both parties were engage in negotiations on a new agreement. Locust Ridge claims it had agreed to new terms contained in the proposed agreement, along with the agreement of the Town of Newellton, but the Town of St. Joseph had not agreed to the terms of the new proposed agreement. The litigation concerns the price to be paid for gas from November 1, 2013 and forward; including an increase in the delivery charge. Locust Ridge contends it has a contract with the Fund based on the proposed agreement, while the management of the Fund continues to pay the price stated in the original contract which expired November 1, 2013. As of the date of these financial statements, the Fund had not filed its answer to the petition.

<u>Town of Newellton vs. Town of St. Joseph</u>, filed April 23, 2014 by the Town of Newellton alleging that while jointly owned by the two (2) towns, the management and financial affairs of the Fund have always been handled by the Town of St. Joseph. The litigation alleges the Town of St. Joseph has not managed these affairs properly, and further alleges that such mismanagement included the refusal of the Town of St. Joseph to agree to the increase in the delivery charge for gas by Locust Ridge (as stated above). The suit asks the court to transfer all books, records, and responsibility of the Joint Gas Line to the Town of Newellton, including but not limited to, the payment of invoices and compliance with request from auditors and other oversight entities. As of the date of these financial statements the Joint Gas Line had not filed an answer to the petition.

7. **<u>New Accounting Pronouncements</u>**

Governmental Accounting Standards Board Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,*" implemented this year provides financial reporting guidance for deferred outflows and resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The Joint Gas Line has determined that they have no deferred outflows or inflows as defined by this standard.

OTHER REPORTS

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June 18, 2014

Honorable Mayors of the
Towns of Newellton and St. Joseph, Louisiana
Jointly Owned Gas Line Operation and Maintenance Fund
St. Joseph, Louisiana

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Towns of Newellton and St. Joseph, Louisiana Jointly Owned Gas Line Operation and Maintenance Fund (the Joint Gas Line) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Joint Gas Line's basic financial statements, and have issued our report thereon dated June 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Joint Gas Line's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Joint Gas Line's internal control. Accordingly, we do not express an opinion on the effectiveness of the Joint Gas Line's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 13-01 and 13-02 to be material weaknesses.

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A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 13-03 and 13-04 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Towns of Newellton and St. Joseph, Louisiana Jointly Owned Gas Line Operation and Maintenance Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance and other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as 13-05, 13-06, and 13-07.

The Fund's Response to Findings

The Fund's responses to the findings identified in our audit are described in the Schedule of Findings, Questioned Costs and Reponses. The Fund's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heard, McElroy & Vestal, LLC

Shreveport, Louisiana

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

SCHEDULE OF FINDINGS, QUESTIONED COSTS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2013

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the basic financial statements of the Towns of Newellton and St. Joseph, Louisiana Jointly Owned Gas Line Operation and Maintenance Fund.

2. Four (4) deficiencies in internal control relating to the basic financial statements are reported. Two (2) are material weaknesses; and two (2) are significant deficiencies.

3. Three (3) instances of noncompliance relating to the financial statements were disclosed during the audit of financial statements.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

13-01 - Failure to Maintain Fiscal Responsibility

Finding:

We noted during our audit that the Joint Gas Line has not executed a contract with Locust Ridge Gas Company, its sole natural gas provider. This situation subjects the Towns of Newellton and St. Joseph and their respective citizens to unnecessary price vulnerability and potential service interruptions. This was a finding in the prior year.

Recommendation:

We recommend that the Joint Gas Line negotiate, at a minimum, an annual contract with Locust Ridge Gas Company.

Response:

We have discussed with St. Joseph and Newellton Boards of Aldermen the potential risk of operating without a natural gas contract.

13-02 - Inadequate Internal Control over Financial Reporting

We noted that a significant year end journal entry was made to correct beginning account balances. Due to this entry accurate statements during the year could not be produced. Good internal control over financial reporting requires that accounting records contain accurate and complete information which would insure that financial data can be relied upon to monitor the financial statements of the Joint Gas Line.

Recommendation:

We recommend accurate financial statements be produced during the year and all adjustments be recorded in those statements.

Response:

We will take steps to make all year end adjustments.

13-03 - Segregation of Duties

Finding:

Due to limited personnel, the Joint Gas Line does not have an adequate segregation of duties regarding its accounting and reporting system to maintain a complete system of internal control. This was a finding in the prior year.

Recommendation:

The Joint Gas Line should segregate its accounting functions as much as possible with its limited staff.

Response:

We continually monitor internal controls over the performance of employee duties and, as recommended, will provide for adequate separation of employee duties to the extent possible to do so.

13-04 - Undeposited Funds

Finding:

Our tests indicated instances where cash receipts were not deposited within a week of physical receipt, as required by the Joint Gas Line's revised policy. Of the twelve (12) months tested, three (3) months were noted where deposits were held over seven days before being deposited in the bank. Holding cash receipts for an excessive period of time unduly exposes the entity to risk of loss from burglary, misappropriation, or misplacement, and prevents the funds from being available for use. This was a finding in the prior year.

Recommendation:

We continue to urge management to make deposits on a weekly basis.

Response:

The accounting clerk was out for extended periods of time during the year, which may have caused the holding of undeposited checks past the time specified by policy. We will monitor undeposited funds in order to make timely bank deposits.

13-05 - Late Filing of Payroll Tax Returns

Finding:

The Joint Gas Line was late paying payroll taxes and filing payroll tax returns during the audit period. This causes the Joint Gas Line to incur unnecessary penalties and interest.

Recommendation:

Management should pay the tax timely and file all required returns when due.

Response:

We have recently enrolled in EFTPS which should facilitate timely paying of payroll taxes, and the returns will be filed when due in the future.

13-06 – Meetings and Minutes

Finding:

Our review of policies indicated the Joint Gas Line did not have regular meetings of its board of directors/aldermen, or similar group of those in charge of governance, and as such no minutes of any such meetings were available for our review. Sound business practices state the need for meetings of such groups on a regular basis, and minutes of these meetings be maintained in the Fund's records.

Recommendation:

We will urge management to meet regularly and maintain minutes of such meetings.

Response:

We agree with the audit finding that management of the Towns of Newellton and Saint Joseph should hold regular meetings to discuss matters relative to the jointly owned gas line maintenance and operations fund. They should also keep minutes of each meeting that documents the items discussed and so the Mayors of Newellton and Saint Joseph will develop an ordinance covering procedures for holding the meeting and submit it to both Boards of Aldermen for review and approval.

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

SCHEDULE OF FINDINGS, QUESTIONED COSTS AND RESPONSES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

13-07 - Late Filing of Audit Report

Finding:

The audit report was not submitted to the Legislative Auditor within 180 days of the close of the Fund's year as required by state statute.

Response:

In the future, we will ensure audit reports covering the jointly owned gas line maintenance and operations fund is submitted to the Legislative Auditor as required by state law.

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2013

12-01 – Segregation of Duties

Finding:

During our audit, we noted that the size of the Joint Gas Line and the limited number of employees does not permit an adequate segregation of employee duties for effective internal control. Based upon the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties. This was a finding in the prior year.

Recommendation:

To the extent that it is practical to do so, management should segregate employee duties and perform supervisory reviews.

Status:

This finding is repeated as finding 13-03.

12-02 – Failure to Maintain Fiscal Responsibility

Finding:

We noted during our audit, that the Joint Gas Line has not executed a contract with Locust Ridge Gas Company, its sole natural gas provider. This situation subjects the Towns of Newellton and St. Joseph and their respective citizens to unnecessary price vulnerability and potential service interruptions. This was a finding in the prior year.

Recommendation:

We recommend that the Joint Gas Line negotiate, at a minimum, an annual contract with Locust Ridge Gas Company.

Status:

The finding is repeated as finding 13-01.

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2013

12-03 – Undeposited Funds

Finding:

Our tests indicated instances where cash receipts were not deposited within a week of physical receipt, as required by the Joint Gas Line's revised policy. Of the twelve (12) months tested, two (2) months were noted where deposits were held over seven days before being deposited in the bank. Holding cash receipts for an excessive period of time unduly exposes the entity to risk of loss from burglary, misappropriation, or misplacement, and prevents the funds from being available for use. This was a finding in the prior year.

Recommendation:

This recommendation has been improved upon from prior year findings, while we continue to urge management to make deposits on a weekly basis.

Status:

The finding is repeated as finding 13-04.