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

**Financial Statements
As of and For The Year Ended June 30, 2002**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. This 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 1/22/03

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

**Financial Statements
As of and For The Year Ended June 30, 2002**

TABLE OF CONTENTS

	Page
Independent Auditors' Report.....	1
FINANCIAL STATEMENTS	
Balance Sheet.....	4
Statement of Revenues, Expenses and Towns' Equity.....	5
Statement of Cash Flows	6
Notes To The Financial Statements	7
REPORTS REQUIRED BY <i>GOVERNMENT AUDITING STANDARDS</i>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	12
Summary Status of Prior Audit Findings.....	14



Francis I. Huffman, CPA
L. Fred Monroe, CPA
Esther Atterberry, CPA

John L. Luffey, MBA, CPA (1963-2002)

INDEPENDENT AUDITORS REPORT

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

We have audited the accompanying financial statements 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, 2002, as listed in the Table of Contents. These financial statements are the responsibility of the Joint Gas Line's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards for financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States and the *Louisiana Governmental Audit Guide*, issued by the Louisiana Legislative Auditor and the Louisiana Society of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Joint Gas Line, as of June 30, 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2002 on our considerations of the Joint Gas Line's internal

**Honorable Mayors of the Towns of Newellton and
St. Joseph, Louisiana Jointly Owned Gas Line
Operation and Maintenance Fund
Independent Auditors' Report**

control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



(A Professional Accounting Corporation)

December 6, 2002

FINANCIAL STATEMENTS

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

**BALANCE SHEET
JUNE 30, 2002**

ASSETS

Cash	\$ 221,915
Investments	61,943
Accounts Receivable	<u>9,793</u>
TOTAL ASSETS	\$ <u>293,651</u>

LIABILITIES AND FUND EQUITY

Liabilities:

Accounts payable	\$ 8,265
Accrued liabilities	792
Customer deposits	<u>163</u>
Total Liabilities	9,220

Fund Equity:

Towns' Equity	<u>284,431</u>
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TOTAL LIABILITIES AND FUND EQUITY	\$ <u>293,651</u>
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The accompanying notes are an integral part of this statement.

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

**STATEMENT OF REVENUES, EXPENSES, AND TOWNS' EQUITY
FOR THE YEAR ENDED JUNE 30, 2002**

Revenues:	
Charges for services	\$ 387,675
Cost of sales	<u>223,372</u>
Gross profit from operations	<u>164,303</u>
Expenses:	
Salaries and wages	4,000
Payroll taxes	492
Contracted services	9,000
Drug testing	50
Leak survey	1,880
Legal and audit	125
Miscellaneous	78
Office supplies and postage	135
Repairs and maintenance	<u>2,901</u>
Total expenses	<u>18,661</u>
Operating income	145,642
Nonoperating Income:	
Interest income	3,038
Reduction in prior purchases of gas	<u>30,244</u>
Net income	178,924
Towns' Equity at beginning of year	<u>105,507</u>
TOWNS' EQUITY AT END OF YEAR	<u><u>\$ 284,431</u></u>

The accompany notes are an integral part of this statement

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Cash flows from operations:	
Operating Income	\$ 145,642
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts receivable	4,951
Decrease in accounts payable	(3,028)
Increase in accrued liabilities	792
Decrease in customers deposits	<u>(2)</u>
Net cash provided by operations	148,355
Cash flows from financing activities:	
Increase in investments	(1,427)
Interest income	<u>3,201</u>
Net cash provided by financing activities	<u>1,774</u>
Net increase in cash	150,129
Cash at beginning of year	<u>71,786</u>
CASH AT END OF YEAR	<u><u>\$ 221,915</u></u>
Supplemental disclosure of noncash financing activity	
Decrease in prior years liability for gas purchases	<u><u>\$ 30,244</u></u>

The accompanying notes are an integral part of this statement.

**TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA
JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

INTRODUCTION

The Town of Newellton and the Town of St. Joseph, Louisiana Jointly Owned Gas Line Operation 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 local gas fields by way of the pipeline to the two towns. The Board of Aldermen and the Mayors of the two Towns govern the Joint Line.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements of the Joint Gas Line 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 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 statement to be misleading or incomplete.

Under the provisions of GASB 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.

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA
JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

A fund is a separate accounting entity with 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. 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. BASIS OF ACCOUNTING

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 balance sheet. 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.

E. BUDGETS

The Joint Gas Line 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 amount 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.

**TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA
JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

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.

NOTE 2 - CASH AND INVESTMENTS

At June 30, 2002, the Joint Gas Line had cash and investments (book balances) as follows:

Demand deposits	\$ 221,915
Time deposits	61,943
Total	<u>\$ 283,858</u>

Under state law, these deposits (or 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 pledge securities plus the 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, 2002, the Joint Gas Line has \$285,119 in deposits (collected bank balances). These balances are secured from risk by \$140,884 of Federal deposit insurance and \$144,235 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 2). Even though the pledge securities 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 pledge securities within 10 days of being notified by the Joint Gas Line that the fiscal agent failed to pay deposited funds upon demand.

NOTE 3 – ACCOUNTS RECEIVABLE

Trade accounts receivable at June 30, 2002 are summarized as follows:

**TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA
JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

Towns of Newellton and St. Joseph, Louisiana	\$	8,761
Other Customers		<u>1,032</u>
 Total Accounts Receivable	 \$	 <u><u>9,793</u></u>

NOTE 4 – RELATED PARTY TRANSACTIONS

The Towns of Newellton and St. Joseph, Louisiana jointly own the gas line which supplies natural gas to each of the towns. Each town purchases gas from the Joint Line for resale to their citizens. For the year ended June 30, 2002 the purchase of gas by each town was as follows:

Town of Newellton, Louisiana	\$	190,188
Town of St. Joseph, Louisiana		<u>156,331</u>
 Total	 \$	 <u><u>346,519</u></u>

As of June 30, 2002 the amount due from each town for gas purchases was follows:

Town of Newellton, Louisiana	\$	5,171
Town of St. Joseph, Louisiana		<u>3,590</u>
 Total Due from the Towns	 \$	 <u><u>8,761</u></u>

NOTE 5 – COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS

The Joint Gas Line was billed for natural gas purchases of \$30,244 in April 1997 for which they did not make payment. During the period after the Joint Gas Line received the bill, the company from whom the gas had been purchased, was sold several times. The Joint Gas Line was never rebilled for the amount owed and has never paid the original bill. At June 30, 2002, management of the Joint Gas Line elected to write off this amount against current year operations and did not include it in accounts payable on the financial statements.

The Joint Gas Line has a contract with Locust Ridge Gas Company to purchase its natural gas. This gas company supplies 100% of the natural gas used by the Joint Gas Line.

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Towns of Newellton and St. Joseph, Louisiana Jointly Owned Gas Line Operations and Maintenance Fund (the Joint Gas Line) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 6, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Louisiana Governmental Audit Guide*, issued by the Louisiana Society of Certified Public Accountants and the Louisiana Legislative Auditor.

Compliance

As part of obtaining reasonable assurance about whether the Joint Gas Line's financial statements are free of material misstatements, we performed test 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 noncompliance with those provisions was not the objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we did note two instances of immaterial noncompliance that we have reported to management of the Joint Gas Line in a separate letter dated December 6, 2002.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Joint Gas Line's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over

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

financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of management of the Joint Gas Line and the Legislative Auditor for the State of Louisiana and is not intended to be used and should not be used by anyone other than these specified parties.



(A Professional Accounting Corporation)

December 6, 2002

**TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA
JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND
SUMMARY STATUS OF PRIOR AUDIT FINDINGS**

The following is a summary of the status of the prior year findings included in the predecessor auditor's audit report dated August 10, 2001 covering the examination of the financial statements of the Towns of Newellton and St. Joseph, Louisiana Jointly Owned Gas Line Operations and Maintenance Fund as of and for the year ended June 30, 2001

2001 – 01 Segregation of Duties

There is insufficient segregation of duties to have an effective internal control

Status:

Resolved in fiscal year 2002



Luffey
Huffman
& Monroe

(A Professional Accounting Corporation)

CERTIFIED PUBLIC ACCOUNTANTS

Francis I. Huffman, CPA
L. Fred Monroe, CPA
Esther Atterberry, CPA

John L. Luffey, MBA, CPA (1963-2002)

MANAGEMENT LETTER

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

In planning and performing our audit of the financial statements 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, 2002, we considered its internal control structure in order to determine our auditing procedures for purposes of expressing our opinion on the financial statement and not to provide assurance on the internal control structure or overall compliance with laws and regulations.

However, during our audit we became aware of certain matters that are opportunities for strengthening the overall environment for compliance with laws and regulations. This letter does not effect our report dated December 6, 2002 on the financial statements of the Joint Gas Line.

1. Failure to File Employers Quarterly Tax Returns Timely

Finding: In performing our test of payroll, we noted that the Joint Gas Line had not filed its employers quarterly tax return for the first quarter ended March 2002 timely and that the return due for the second quarter ended June 30, 2002 had not been filed at all. The Internal Revenue Service regulations require that an employer file their quarterly federal tax return by the last day of the month after the quarter ends. The failure of the Joint Gas Line to file these returns timely has subjected them to penalties from the Internal Revenue Service.

Recommendation: All employers' quarterly federal tax returns, which have not been filed, should be filed immediately. All quarterly returns should be filed timely to avoid penalties and possible liens from taxing authorities.

Management's Corrective Action Plan: As recommended, we have filed the Employer's Quarterly Federal Tax Returns for the three quarters ended September 30, 2002 and will file all tax returns on time in the future.

**Towns of Newellton and St. Joseph, Louisiana
Jointly Owned Gas Line Operations
and Maintenance Fund
Management Letter
Page 2 of 2**

2. Failure to issue Form 1099

Finding: During the year ended June 30, 2002 the Joint Gas Line issued checks totaling \$9,000 to two individuals. Internal Revenue Service Regulations require the Joint Gas Line to issue a form 1099 to any individual paid \$600 or more in a calendar year. The Joint Gas Line did not issue a 1099 to either individual for calendar year 2001.

Recommendation: The Joint Gas Line should issue 1099's reporting the amounts paid to the individuals for the year in which they were not issued. In addition the Joint Gas Line should ensure that, in the future, Form 1099's are issued for all payments requiring reporting.

Management's Corrective Action Plan: In accordance with the Internal Revenue Service Regulations, we will issue a Form 1099 to all individuals who provides personal services to the Joint Gas Line in the future.



(A Professional Accounting Corporation)

December 6, 2002