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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, 2003**

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 2-4-04

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, 2003

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**Luffey
Huffman
& Monroe**

AN INSTITUTIONAL ACCOUNTING CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Francis J. Huffman, CPA
J. Pralimmon, CPA
Robert Atkinson, CPA

John L. Luffey, MBA, CPA, CFPS-2000

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, 2003, 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, 2003, 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 November 26, 2003 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)

November 28, 2003

FINANCIAL STATEMENTS

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

**BALANCE SHEET
JUNE 30, 2005**

ASSETS

Cash	\$ 253,709
Investments	21,528
Accounts Receivable, net of Allowance for Doubtful Accounts	<u>13,461</u>
TOTAL ASSETS	\$ <u>288,698</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable	\$ 94
Accrued Liabilities	1,080
Customer Deposits	<u>163</u>
Total Liabilities	1,337
Fund Equity:	
Town's Equity	<u>287,361</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>288,698</u>

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, 2003**

Revenues:	
Charges for Services	\$ 445,110
Cost of Sales	<u>417,283</u>
Gross Profit From Operations	<u>27,827</u>
Expenses:	
Salaries and Wages	12,000
Payroll Taxes	637
Bad Debts	5,094
Leak Survey	360
Legal and Audit	3,254
Miscellaneous	318
Office Supplies and Postage	4
Repairs and Maintenance	<u>7,978</u>
Total Expenses	<u>27,638</u>
Operating Income	189
Nonoperating Income:	
Interest Income	<u>3,741</u>
Net Income	2,930
Towns' Equity at Beginning of Year	<u>284,431</u>
TOWNS' EQUITY AT END OF YEAR	<u>\$ 287,361</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, 2003**

Cash Flows From Operations:	
Operating Income	\$ 189
Adjustments to Reconcile Operating Income	
to Net Cash Used by Operating Activities:	
Bad Debts Expenses	1,094
(Increase) in Accounts Receivable	(6,351)
Decrease in Accounts Payable	(8,171)
Increase in Accrued Liabilities	287
	(11,362)
Net Cash Used by Operating Activities	
	(11,362)
Cash Flows from Investing Activities:	
Increase in Investments	(469)
Interest Income	2,341
	2,341
Net Cash Provided by Investing Activities	
	2,341
Net Decrease in Cash	
	(9,090)
Cash at Beginning of Year	
	162,799
CASH AT END OF YEAR	\$ 153,709

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, 2005**

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 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 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 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, 1993

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. 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 (expense, 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 amounts in these 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, 2003

6. 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 these estimates.

NOTE 2 - CASH AND INVESTMENTS

State statutes require the Joint 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, 2003, the Joint Gas Line had cash and investments (book balances) as follows:

Demand deposits	\$ 193,709
Time deposits	21,528
Total	<u>\$ 215,237</u>

Under state law, federal deposit insurance on the pledge of securities owned by the fiscal agent bank must secure these deposits (or resulting bank balances). 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, 2003, the Joint Gas Line had \$192,187 in deposits (collected bank balances). These balances are secured from risk by \$162,816 of Federal deposit insurance and \$165,018 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 30 days of being notified by the Joint Gas Line that the fiscal agent failed to pay deposited funds upon demand.

**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, 2003**

NOTE 3 – ACCOUNTS RECEIVABLE

Trade accounts receivable at June 30, 2003 are summarized as follows:

Towns of Newellton and St. Joseph, Louisiana	\$ 12,668
Other Customers	<u>4,487</u>
Total	18,555
Less Allowance for Doubtful Account	<u>(3,094)</u>
Net Accounts Receivable	\$ <u>13,461</u>

The Joint Line has started 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. The amount charged to bad debt expense for 2003 is \$3,094.

NOTE 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 Line for resale to their citizens. For the year ended June 30, 2003 the purchase of gas by each town was as follows:

Town of Newellton, Louisiana	\$ 183,081
Town of St. Joseph, Louisiana	<u>210,344</u>
Total	\$ <u>393,425</u>

As of June 30, 2003 the amount due from each town for gas purchases was follows:

Town of Newellton, Louisiana	\$ 5,813
Town of St. Joseph, Louisiana	<u>6,255</u>
Total Due from the Towns	\$ <u>12,068</u>

**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, 2003**

NOTE 5 – COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS

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. In April 2003 Locust Ridge Gas Company was sold to a private investor who has continued to supply natural gas to the Joint Line under the existing contract. Subsequent to June 30, 2003 the Joint Gas Line has entered into negotiations with the new owner for the continuation of the supply of natural gas, but has not signed any contract.

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**



**Luffey
Huffman
& Monroe**

AN PROFESSIONAL ACCOUNTING CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Francis J. Huffman, CPA
L. Fred Monroe, CPA
Edward Heston, CPA

John L. Luffey, MBA, CPA (1980-2002)

**INDEPENDENT AUDITORS' 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, 2003, and have issued our report thereon dated November 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards 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 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 noncompliance with these provisions was not the objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards, which we have reported in the accompanying Schedule of Findings as 03-02.

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

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

Internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Joint Line's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as items 03-01, 03-02, and 03-03. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. However, we consider items 03-01, 03-02, 03-03 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. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



(A Professional Accounting Corporation)

November 26, 2003

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA
JOINTLY OWNED GAS OPERATIONS AND MAINTENANCE FUND
SCHEDULE OF FINDINGS
JUNE 30, 2003

01-01 Cash Disbursements for Goods and Services

Finding:

We reviewed 25 of the cash disbursements for the purchase of goods and services of Towns of Newellton and St. Joseph, Louisiana Jointly Owned Gas Operations and Maintenance Fund (the Joint Gas Line) to determine if its cash disbursement policy was being followed. Of the disbursements tested, 13 did not carry the signed approval of the Mayor of Newellton. It's the policy of the Joint Gas Line for the Mayor of Newellton to receive and approve all invoices before they are given to the Mayor of St. Joseph to enter into the accounting system for payment. Without the approval by the Mayor of Newellton of the invoices, purchases that benefit private individuals could be made and not be detected. This also could allow invoices that would misappropriate assets to be submitted and go undetected by the Joint Gas Line.

Recommendation:

It is our recommendation that the Mayor of Newellton approve and sign all invoices before payment is made on them.

Management's Corrective Action Plan:

Currently, the Mayor of Newellton and the Mayor of St. Joseph hold monthly meetings to review invoices and prepare checks for paying vendors. After they review and approve each invoice, the Mayor of Newellton and the Mayor of St. Joseph sign each check and the Mayor of St. Joseph forwards them by mail to the appropriate vendor.

To evidence the review and approval process, the Mayor of Newellton and the Mayor of St. Joseph will signature approve each invoice before payment.

02-02 Failure to File Payroll Tax Returns Timely

Finding:

The Joint Line has failed to file its payroll tax returns on a timely basis with the Internal Revenue Service and the State of Louisiana. In the current year, they failed to file their third quarter 2002 and first quarter 2003 on a timely basis. This has resulted in the Internal Revenue Service assessing a penalty. We also noted that the returns for the third and fourth quarters of 2002 were under reported by \$1,000, respectively, thereby understating their tax liability for the year. The Internal Revenue Service requires that an

**TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA
JOINTLY OWNED GAS OPERATIONS AND MAINTENANCE FUND
SCHEDULE OF FINDINGS
JUNE 30, 2003**

employers file their quarterly Federal tax returns by the last day of the month after the quarter ends. The failure of the Joint Gas Line to file timely these returns and to report the proper wages has subjected them to penalties from the Internal Revenue Service.

Recommendation:

We recommend that all quarterly payroll tax returns be filed timely and accurately to prevent the Joint Gas Line from being subjected to penalties and possible liens from the taxing authorities.

Management's Corrective Action Plan:

We will comply with your recommendation by preparing quarterly payroll tax returns accurately and filing them on time.

02-03 Collection of Waterproof Gas Transportation Charges

Finding:

We noted during our review of the outstanding accounts receivable charges that the Town of Waterproof owed the Newellton and St. Joseph, Louisiana Jointly Owned Gas Line Operations and Maintenance Fund (the Joint Gas Line) approximately \$1,100 as June 30, 2003. The last payment by the Town of Waterproof was made on April 23, 2003 and was for charges through January 2003. The Town of Waterproof receives their natural gas by way of the Joint Gas Line's pipeline. The Town of Waterproof is only charged a transportation fee of \$2.28 per MCF by the Joint Gas Line. As of June 30, 2003 there appears to have been no attempt by the Joint Line's management to collect this outstanding debt. Subsequent to our review, the amount owed by the Town of Waterproof has continued to increase and no payment has been made to reduce the outstanding debt. The failure to take corrective action by the Joint Gas Line could cause a substantial loss of revenue.

Recommendation:

We recommend that the management of the Joint Gas Line take all legal avenues available, including the covering of transportation of natural gas to the Town of Waterproof, to collect the amount that is owed to them.

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA
JOINTLY OWNED-GAS OPERATIONS AND MAINTENANCE FUND
SCHEDULE FINDINGS
JUNE 30, 2003

Management's Corrective Action Plan:

Monthly, we will contact the appropriate Town of Waterproof officials regarding the outstanding transportation charges, if any, and will keep the Boards of Aldermen apprised of the balance due. The Towns of Newellton and St. Joseph Board of Aldermen may approve the severing of gas transportation to the Town of Waterproof after all legal avenues are used to collect the amount owed the Joint Line.

**TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA
JOINTLY OWNED GAS OPERATIONS AND MAINTENANCE FUND
STATUS OF PRIOR YEAR FINDINGS
JUNE 30, 2003**

The following is a summary of the status of the prior year findings included in the auditor's report dated December 6, 2002 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, 2002.

Management Letter

1. Failure to File Employers Quarterly Tax Returns Timely

Finding: The Joint Gas Line had not filed its employer's quarterly tax return for the quarter ended March 2002 timely and 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 returns by the last day of the month after the quarter ends. The failure of the Joint Gas Line to file these returns time has subjected them to penalties from the Internal Revenue Service.

Status: The Joint Gas Line is not filing its quarterly payroll tax returns timely.

2. Failure to Issue Form 1099

Finding: The Joint Gas Line issued checks totaling \$9,000 to two individuals. The Internal Revenue Service Regulations require the Joint Gas Line to issue 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 the calendar year 2001.

Status: This finding has been resolved in fiscal year ended June 30, 2003.